

Industry Top Trends Update

Hotels, Gaming, and Leisure

Uncertain recovery path with divergence among subsectors

What's changed post-COVID?

About 85% of the leisure portfolio in Europe is speculative grade. More than 85% of the total EMEA portfolio is on a negative outlook or CreditWatch negative. For now, most companies have been able to access the debt markets, albeit at high rates, and the number of defaults to date remains low.

The leisure sector may be among the last to recover. After the 2008-2009 global financial crisis, leisure was among the first subsectors to rebound. But we believe that social-distancing requirements and quarantine restrictions mean that post COVID-19, leisure will take longer than many other sectors to recover.

What is the likely path to recovery?

Differences within the subsector. We expect recovery to spread across 2022 and 2023, with meaningful divergence among the various subsectors. Gaming companies, holiday homes, and theme parks should recover earlier, in 2021-2022, while hotels, lodging, and cruise operators could take longer to reach 2019 levels.

A fragile recovery process. While the hotels and lodging subsector is showing improvement following the easing of lockdowns, with occupancy in the mid-40% to early-50% range in certain regions, the recovery is fragile. Economy and lower-midscale subsegments within hotels should recover faster than premium and luxury, due to a higher dependence on small and midsize business travelers. Early trading post lockdown has been encouraging for land-based gaming operators; however, in the face of lower consumer confidence and a recessionary environment, it remains to be seen whether a material recovery can be sustained.

Staycation tourism to benefit. Due to ongoing economic recession, travel restrictions, and shaken consumer confidence in case of a second or third wave, we expect the staycation trend to strengthen, with domestic tourism—such as holiday parks and theme parks, dependent on locals—expected to benefit.

What are the key risks around the baseline?

Structural shifts and solvency. Lingering health risks could continue to dampen consumer confidence. This could translate to occupancy remaining at a subdued level, compared with the minimum 40% average needed to break even for hotels and lodging. Additionally, solvency remains in question for some speculative-grade companies due to already-high leverage, negative free operating cash flow, and consistent cash burn owing to a high fixed-cost base in certain cases. Liquidity and refinancing risk could continue to be a medium-term problem for these companies.

Regulation. Trends in gaming we are watching include: the potential for adverse developments in the U.K., particularly for online; the legalization and regulation of online gaming in Germany in 2021; speed and scope of U.S. online sports betting legalization; the potential for increased gaming taxes in Europe following government revenue-raising needs post COVID-19.

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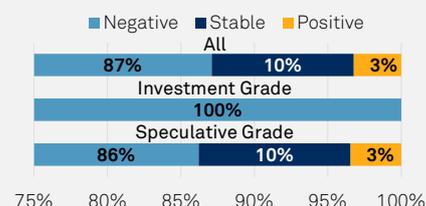
- Negative Rating Actions Taken On Three European Gaming Operators As COVID-19 Pandemic Continues, April 16, 2020
- Negative Rating Actions On Three European Holiday Park Operators On Closures Due To COVID-19 Containment Measures, April 14, 2020

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Outlook Distribution



Ratings Statistics (YTD)

	IG	SG	All
Ratings	2	29	31
Downgrades	1	17	18
Upgrades	0	0	0

Ratings data as of end-June, 2020

COVID-19 Heat Map

COVID-19, Recession, and O&G Impact	
Gaming	High
Lodging and hospitality	High
Cruise lines	High
Theme park and other visitor attractions	High
Potential Neg. Long-Term Industry Disruption	
Gaming	Yes
Lodging and hospitality	--
Cruise lines	--
Theme park and other visitor attractions	

2020 Estimates v. 2019		
Revenue Decline	EBITDA Decline	Incremental Borrowings
Gaming		
25% to 50%	40% to 60%	5% to 10%
Lodging and hospitality		
>50%	40% to 60%	5% to 10%
Cruise lines		
>50%	>60%	<5%
Theme park and other visitor attractions		
>50%	>60%	>10%

2021 Estimates v. 2019	
Revenue Decline	EBITDA Decline
Gaming	
10% to 20%	20% to 30%
Lodging and hospitality	
20% to 30%	20% to 30%
Cruise lines	
30% to 40%	30% to 40%
Theme park and other visitor attractions	
20% to 30%	30% to 40%