Hotels, Gaming, and Leisure

Consumer spending supports resilient earnings

This report does not constitute a rating action.

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What's changed?

Resilient operating performance for the leisure and travel subsectors. Consumers prefer spending on leisure, as opposed to purchases of discretionary goods, despite the ongoing geopolitical tensions.

Large European gaming players becoming profitable in the U.S. Smaller companies are exiting because of the heavy investment required and high competition.

A high volume of refinancings and capital structure activity. Speculative-grade companies have addressed their refinancing needs on the back of resilient operating performance. Many maturity extensions of pandemic era debt are done via opportunistic amend and extend transactions.

What to look out for?

Financial policy choices. Most issuers demonstrated a sound rebound in operations and built up liquidity headroom after the COVID-19 pandemic. We anticipate that companies will resume merger and acquisition (M&A) activity and shareholder distributions, though we expect it would remain in line with rating thresholds.

Price increases moderating in 2024. We forecast high average daily rates for lodging companies, but further increases should moderate because of elevated prices and declining inflation. Revenue per room should see continued uplift on the back of recovering occupancy rates.

Wage pressure to persist. While energy costs have reduced relatively, wage inflation could hamper EBITDA margins because we expect the ability to pass-through price increases to the final customer will reduce.

What are the key risks around the baseline?

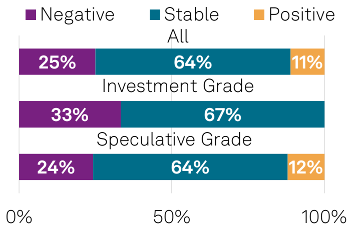
Developments in new gaming regulation, as economies and political choices settle. The focus on tightening gaming restrictions could resume.

Increasing capital expenditure on growth investments could subdue cash flow for 2024, as operating performance improves, and financial flexibility is restored.

Debt-funded M&A could resume. Base rate cuts are expected for the eurozone and the U.K., and we think consolidation across leisure and gaming sectors could resume in Europe because the sector is highly fragmented.

Rating Trends

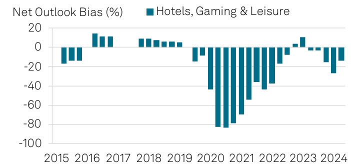
Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	3	33	36
Downgrades	0	3	3
Upgrades	0	4	4

Ratings Outlook Net Bias



Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	5.9	4.5
EBITDA growth (Y/Y%)	7.4	4.0
EBITDA margin (%)	20.6	20.8
Capex growth (Y/Y%)	6.5	14.0
Debt/EBITDA (x)	2.6	4.6
FFO/Debt (%)	27.4	12.0
FOCF/Debt (%)	19.3	4.1

All data as of end-June 2024.
* Year-to-date. Current ratings only.

Related Research

Industry Credit Outlook 2024: Hotels, Gaming, and Leisure: Spending on leisure slows under high prices and rates, Jan. 9, 2024