

Industry Top Trends Update

Hotels, Gaming, and Leisure

Broad-based rebound continues, but economic risks grow

What's changed?

The recovery. European leisure operators are on track heading into second-half 2022 to post their best annual performance since pre-pandemic 2019 results, largely uninterrupted by pandemic measures. However, the focus has turned from post-pandemic recovery to potential impacts from increasing economic and geopolitical risks, especially for issuers depending on international travel.

Cost inflation. Costs have been increasing meaningfully since the beginning of the year. Energy, fuel, labor, and financing costs should contribute to upward pressure on costs for the year. Labor remains most significant for rated issuers and so far, has been managed well, but more pressure could come. For now, price increases are offsetting costs, with prices accepted and demand strong.

Retail gaming rebound. In contrast to the challenging comparative period in first-half 2021, the rebound in retail land-based gaming revenue in Europe is underway, with some operators recording quarterly numbers ahead of those in 2019.

What to look out for?

Discretionary spending. With growing economic risks, including persistently high inflation and increasing interest rates, we expect competition to become more intense for leisure spending dollars in household discretionary budgets.

Travel leisure. Pricing trends in 2022 have been very strong. However, with high inflation across Europe, labor shortages, rising COVID-19 infections and geopolitical impacts, we expect pricing to normalize by year-end, following a summer flagged to benefit from strong pent-up demand and dynamic pricing.

U.K. gaming regulation. U.K. gaming operators remain exposed in the near term to the outcomes of the anticipated Gambling Act review white paper. Gaming operators have adopted a number of safer gaming measures ahead of the release, while the paper is expected in third-quarter 2022.

What if there's a recession?

Travel and lodging. In a recessionary environment, we would expect corporate and group to be more pressured than leisure, international and long haul to be more exposed than local, regional domestic, and staycation providers, and midscale and budget brands more resilient than upscale. Franchised and managed lodging should be better positioned vs owned and leased in an increasing rental cost environment.

Gaming. We consider lottery relatively well positioned from a product profile perspective. Operators in markets with particularly strong structural online growth should likely benefit, offsetting any specific product category weakness. Higher-fixed-cost operations will be more affected.

Capital structure and refinancing risk. Rated European leisure issuers are almost exclusively speculative-grade and improvement in credit ratios into 2022 has relied on rebounded earnings, rather than balance-sheet repair. Access to capital and refinancing risk remain important key credit factors in any recession.

Latest Related Research

- [European Hotel Industry Fears Inflation And Travel Reticence Could Scupper Its Strong Recovery](#), June 13, 2022

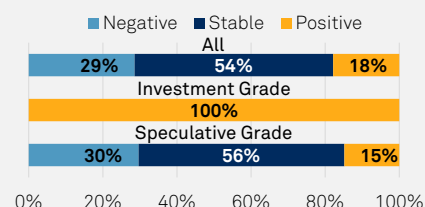
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