ESG Research

ESG Materiality Map
Leisure

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Social factors are more material in the leisure sector than in many other industries. Customer health and safety has become an increasingly material topic from both a stakeholder and credit perspective. Climate transition risk is an example of factors presently more material for stakeholders than credit.

This report does not constitute a rating action

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Leisure

In line with the research report "Materiality Mapping: Providing Insights Into The Relative Materiality Of ESG Factors," published on May 18, 2022, S&P Global Ratings is publishing research on the ESG materiality map for the leisure sector. We provide an illustration of our current view of the relative materiality of certain environmental and social (E&S) factors, from both the stakeholder and credit perspectives, for the sector. The materiality map does not represent any new analytical approach to the treatment of E&S factors in our credit ratings. See our ESG criteria for more information on how we incorporate the impact of ESG credit factors into our credit ratings analysis.

Leisure Sector

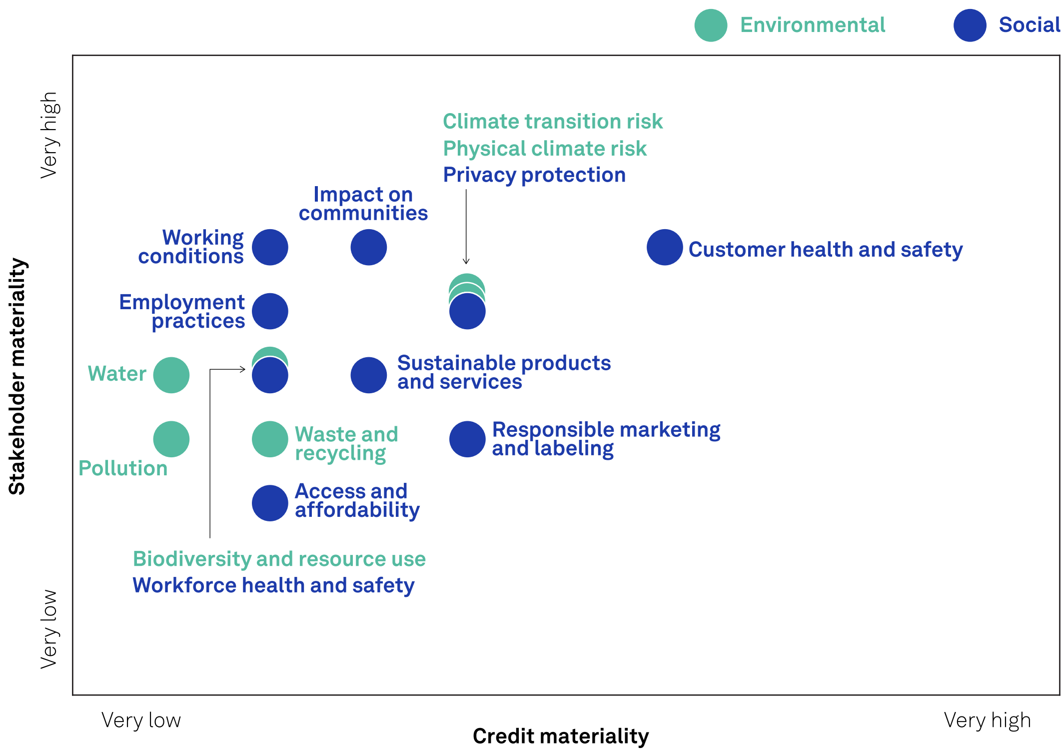
Leisure is a relatively heterogenous industry that consists of various subsectors including hotels and resorts, casinos and gaming, leisure facilities, cruise lines, and leisure equipment and products. Although the materiality of different environment and social factors varies by subsector and region, our materiality map considers the average exposure to these risks across the broader leisure sector.

Key Takeaways

- Social factors are more material in the leisure sector than in many other industries, due to the experiential and largely discretionary nature of services provided in addition to the large number of customers and employees globally in the industry. Environmental issues are generally less material.
- Customer health and safety has become an increasingly material topic from both a stakeholder and credit perspective. Other material social factors include working conditions, privacy protection, and impact on communities.
- While climate transition risks are presently more material for stakeholders, these could become more credit material as the cost of meeting stricter environmental regulation could increase costs for customers, thereby limiting their access to leisure activities.

See materiality map on the following page.

ESG Materiality Map For The Leisure Sector



The materiality map provides an illustration at a point in time, of our findings on the relative materiality of certain environmental and social (E&S) factors, from both the stakeholder and credit perspectives, for the sector. It does not represent any new analytical approach to the treatment of E&S factors in our credit ratings. See our ESG Criteria for more information on how we incorporate the impact of ESG credit factors into our credit ratings analysis. Source: S&P Global Ratings.

How To Read The ESG Materiality Map

The stakeholder materiality (Y axis) reflects our assessment of the relative level of impacts and dependencies of the sector on the environment, society, and economy.

The credit materiality (X axis) reflects our assessment of the relative level of potential and actual credit impact for the sector. The credit implications for the factors positioned on the left side to the middle of the X-axis would be more limited and absorbable. On the right side, there is higher potential for these implications to be more disruptive. We assess credit implications for an entity based on its individual characteristics.

Assessing E&S factors' materiality: We consider both the likelihood of the impact from a given factor, as well as the magnitude of the impact. The materiality of the factors varies depending on the perspective (stakeholder or credit) as well as the evolving and dynamic interactions between these two dimensions.

The main areas of the map:

- The upper-right quadrant displays the most material, on a relative basis, E&S factors identified for the sector from both a stakeholder and credit perspective.
- The upper-left quadrant presents factors that are more material from a stakeholder than credit perspective. These factors have the potential to become more material from a credit perspective.
- The bottom-left quadrant shows factors that are less material for both stakeholders and credit. Their materiality may evolve over time and this dynamic may not be linear.

Examples Of Material Factors

Below we provide the rationale of some of the material factors to illustrate the above findings.

Customer health and safety

The customer health and safety factor is highly material for stakeholders and credit. Such risks are often localized, affecting a relatively small number of stakeholders at one time, however in some cases, the severity can be large, resulting in injury or death. This is more likely when leisure equipment is not maintained well or if appropriate safety precautions are not enforced. The casinos and gaming subsector is exposed to elevated safety risks for customers, including gambling addiction, harm to underage players, and substance dependencies. Furthermore, health and safety concerns or perceived travel threats (an extreme version of which we saw during the pandemic) could weigh on customer traffic and spending and therefore, leisure operators' cash flows and leverage, posing the most material credit risk for the sector. Voluntary and mandatory actions to contain the spread of disease can also dramatically reduce travel and discretionary leisure purchasing behavior, resulting in losses, higher debt, and deterioration in creditworthiness. On the other hand, a failure to act in a timely and proportionate manner may put customer health and safety at risk and damage reputation, and in turn harming issuers' credit. Pandemics aside, the risk of terrorist attacks, geopolitical unrest, and health scares could also have similar effects.

Impact on communities

Impact on communities has a more pronounced stakeholder materiality than for credit because of the number of people living in close vicinity to resorts and towns with leisure activities. A rise in tourism can have harmful effects on local populations such as overcrowding, which could lead to displacement of local residents, real estate and cost of living inflation, poor sanitation, and increased pollution. Leisure operators may occupy desirable spots to the detriment of the population and may put strain on local services and infrastructure. That said, the industry can benefit communities as tourism generates taxes and creates employment and business opportunities. Many leisure entities are highly location dependent and their ability to manage relationships with local communities can be integral to sustaining a productive business and avoiding potentially damaging local regulation and taxes. The gaming subsector is often exposed to tighter regulations to ensure responsible use and protect communities from the perceived harmful effects of gambling. Regulations include advertisement bans, smoking bans, and caps on betting amounts. These restrictions have a credit impact in cases where gambling becomes less attractive to customers, resulting in revenue volatility or impaired profitability.

Climate transition risk

Climate transition risk is more material to stakeholders than for credit. For example, increasing costs due to regulation or taxes aimed at limiting global greenhouse gas emissions could affect customers' access to leisure activities, particularly in cases where holiday-makers do not have alternatives to carbon-intensive modes of transportation such as flying. We consider climate transition risk to be less material from a credit perspective and expect transition risks to have small, but meaningful, impacts on a subset of leisure operators, especially cruise operators and leisure goods manufacturers. Cruise operators are exposed to increasingly complex environmental regulations, including on carbon emissions, which could increase costs and require significant investment in more environmentally friendly ships. Additionally, leisure operators building new facilities may be faced with increasingly stringent building regulations. Failure to adhere to environmental rules could result in fines.

Physical climate risk

Physical climate risks are more material to stakeholders than for credit. For example, more frequent and severe climate hazards--like storms, wildfires, or floods--could cause direct damage to assets and harm leisure makers' employees and customers. Meanwhile, longer term shifts in climate patterns could result in higher operational costs. In the most affected regions, assets owners may face higher insurance premiums. Issuers' credit quality may also be affected where shifts in climate, or less predictable and more volatile, weather affects demand. At the same time, climate change may lead to new--or increased--demand for new tourist destinations as temperatures increase and the summer season in many regions lengthens.

Working conditions

Working conditions have more pronounced stakeholder materiality than for credit. We consider the large global workforce within the leisure industry. Workers in the sector are often in relatively low paying jobs, working long hours with irregular scheduling, part-time schedules, and seasonal work, exacerbating the effects on the workforce. Subcontracting or outsourcing seasonal, migrant, and low-skilled labor, particularly through labor recruitment agencies, is also common across the industry, which increases supply chain exposure to modern slavery (including fraud, coercion, human trafficking, and labor exploitation). Furthermore, employees may have limited flexibility to change jobs in geographies highly dependent on tourism and leisure, where jobs in other sectors may be limited, increasing workforce vulnerability to exploitation. Although the credit impacts from working conditions are typically lower, we will continue to monitor this as regulations to protect workers increase globally.

What is our approach to research on the ESG materiality map?

Referring to the research report "Materiality Mapping: Providing Insights Into The Relative Materiality Of ESG Factors," published on May 18, 2022, this research is built on the ESG materiality concept that considers ESG issues as material when they could affect stakeholders, potentially leading to material direct or indirect credit impact on entities. It considers that all businesses, through their activities and interactions, impact and depend, directly or indirectly, on stakeholders such as the environment (natural capital), society (human and social capital), and economy (financial capital). Using this ESG materiality concept, S&P Global Ratings has worked toward identifying a common, global, cross-sector set of E&S factors that we believe are material to stakeholders, and either are already, or have the potential to become, credit material for entities. The materiality map we propose provides an illustration at a point in time, of our findings on the relative materiality of those factors, from both the stakeholder and credit perspectives.

How does the sector ESG materiality map relate to credit ratings or ESG evaluations?

The sector materiality map is a visual representation of the factors that we consider impactful to the sector from a stakeholder and credit perspective for the purposes of this research. It does not represent any new analytical approach to the E&S factors in our credit ratings.

The relative materiality of the factors indicated on the materiality maps may inform the E&S Risk Atlas scores and the weights of the E&S factors used in ESG evaluations.

They may also inform our discussions with issuers on those factors' existing or potential credit materiality.

Related Research

- Materiality Mapping: Providing Insights Into The Relative Materiality Of ESG Factors, May 18, 2022
- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- ESG Evaluation Analytical Approach, Dec. 15, 2020