S&P Global Ratings

Hotels, Gaming, and Leisure

Leisure demand will be tested amid high prices

This report does not constitute a rating action.

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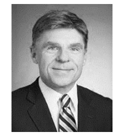

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What's changed?

Not much. Our view that resilient leisure spending will be tested this year holds. With prices and rates high, consumers may look for bargains, causing travel and leisure spending growth to moderate.

Open capital markets and ratings stability contributed to a high level of debt refinancings, extending maturities for all who tapped the markets, although these conditions were not available to the most challenged low-rated issuers.

We keep raising our cruise baseline expectations, floating all ratings in the sector upward. If the late-blooming cruise recovery has a multiyear arc like other leisure sectors did post-COVID, it is plausible cruise vacationers continue to spend freely and credit measures improve to an even better place than we currently assume.

What to look out for?

M&A may take off in earnest if buyers can look past elevated rates or become flexible on how much debt to use to finance transactions. Still, if leveraging mergers and acquisitions increase, leverage cushions could decline, and ratings could be pressured.

Elevated labor and other costs will pressure margin in gaming and hotel sectors where revenue is moderating.

Upgrades so far this year have meaningfully exceeded downgrades, yet the extent of this upward bias to ratings is not likely to continue much longer with moderating revenue, elevated costs pressuring margin, and M&A risk across much of the sector.

What are the key risks around the baseline?

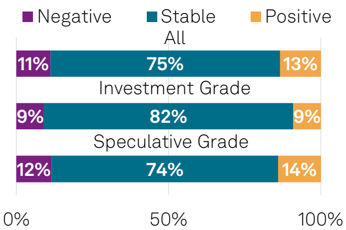
High prices and high rates weaken demand more than we assume. This is particularly true for big ticket discretionary items like timeshare and recreational vehicles.

Large scale casino development projects in New York remain a longer-term leveraging risk for companies that win their license bids, but the timing of these awards has shifted by at least a year to 2025.

Higher shareholder returns than we expect in a slowing revenue environment could weaken credit measures more than we anticipate.

Rating Trends

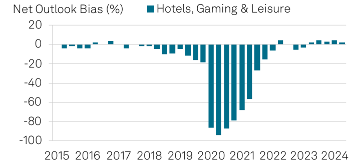
Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	11	86	97
Downgrades	0	5	5
Upgrades	1	12	13

Ratings Outlook Net Bias



Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	2.4	5.1
EBITDA growth (Y/Y%)	6.5	7.7
EBITDA margin (%)	29.5	27.2
Capex growth (Y/Y%)	7.5	-3.2
Debt/EBITDA (x)	2.2	4.9
FFO/Debt (%)	34.9	12.7
FOCF/Debt (%)	19.6	5.9

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

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