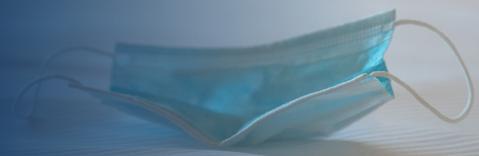


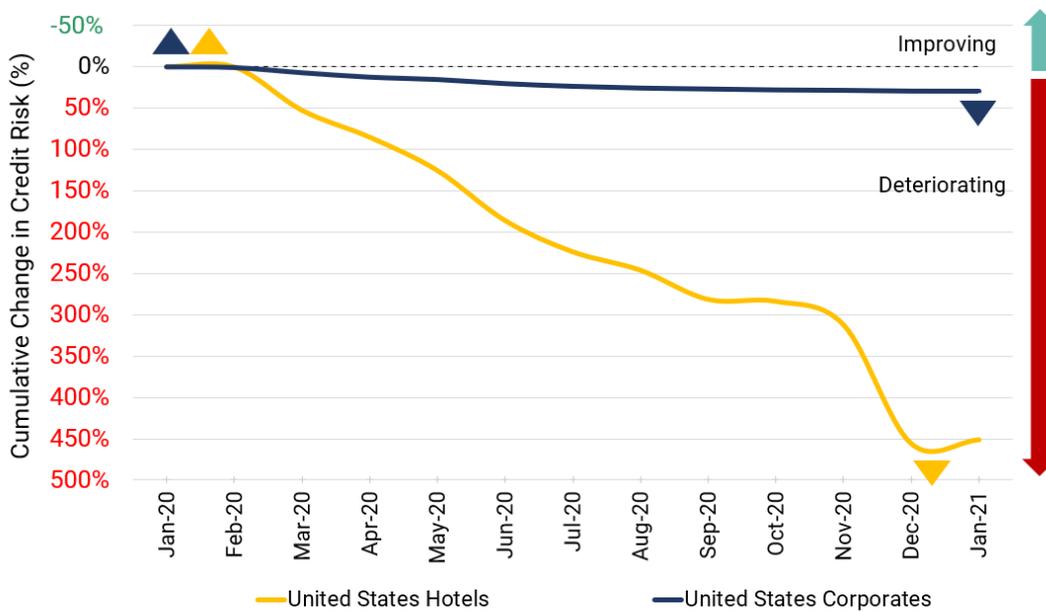
US Hotels: Hardest Hit by COVID but Some Recovery in Sight

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The US stimulus package should coincide with further lockdown easing as the vaccine is rolled out. With savings rates at historical highs, a major slug of pent-up cash is likely to make its way into the hard-hit leisure sector. And in that sector, hotels have been hardest hit, with average credit risk climbing by a staggering 456% from 58 Bps to a peak of 322 Bps in the past year. This is roughly a 1 in 30 chance of default over a one-year horizon.

Figure 1: Changes in Average Credit Risk, US Hotels and US Corporates



Source: Credit Benchmark

This move is the largest increase of any sector monitored by Credit Benchmark; Figure 1 shows that the equivalent increase for US Corporates overall is about 25%.

But despite occupancy rates below 50% of their norm and revenues down 35%, equity shares in some of these firms have been outstanding recent performers – since hitting bottom in May 2020, Marriot and Hilton are up 100%, Hyatt are up 150%, and Wyndham are up an astonishing 230% - better than Bitcoin.

The largest hotel groups are perceived as most likely to be COVID-clean – allowing them to keep a higher share of the shrunken market compared with smaller rivals and Airbnb.

Hotels in rural areas, with golf courses and other socially distanced activities, have kept some cash flowing. Major casinos offering online gambling incentives to regulars benefitted from a locked-down clientele with time and cash who lacked any outlets for sports betting.

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Figure 2 shows the more recent, 6-month impact of COVID on 32 US hotels and casinos.

Companies in the same corporate family are shown in the same text colour. The largest group of 11 names in this sample are in the lower left quadrant, meaning that they are classed as lower High Yield and have had at least one notch downgrade in the past 6 months. 3 others in the same credit category have deteriorated, but by less than a full notch on the 21-category scale. Two companies in this category – Golden Nugget and Boyd – are improving or have been upgraded by at least one notch.

A further 13 companies are in the upper High Yield category, and two of these – Hilton Worldwide Finance and Elite Casino Resorts – have improved or upgraded in the past 6 months. There are no firms in the Investment Grade categories, but Resorts World Las Vegas and Turning Stone Resort Casino are on the IG/HY boundary. Turning Stone has recently been upgraded (and it has recently offered its facilities as a COVID vaccine centre).

Even the darkest sectors have their points of light as lenders begin to look through the current problems to the expected recovery. And some US Hotels could be in for a bonanza as vaccinated retirees enthusiastically book holidays after a year of being housebound.

Figure 2: Six month credit levels and changes for US Hotels and Casinos

6m	Downgrade	Deteriorating	No Change	Improving	Upgrade
IG1					
IG2					
Crossover		RESORTS WORLD LAS VEGAS LLC			TURNING STONE RESORT CASINO LLC
HY1	HILTON GRAND VACATIONS BORROWER LLC HYATT HOTELS CORP	WYNDHAM DESTINATIONS INC XANTERRA LEISURE HOLDING LLC MARRIOTT INTERNATIONAL INC	HYATT INTERNATIONAL HOLDINGS CO EXTENDED STAY AMERICA INC WYNDHAM HOTELS & RESORTS INC HILTON WORLDWIDE HOLDINGS INC CHOICE HOTELS INTERNATIONAL INC MARRIOTT OWNERSHIP RESORTS INC	HILTON WORLDWIDE FINANCE LLC	ELITE CASINO RESORTS LLC
HY2	PK DOMESTIC PROPERTY LLC CAESARS RESORT COLLECTION LLC PEPPERMILL CASINOS INC CAESARS ENTERTAINMENT INC XHR LP RHP HOTEL PROPERTIES LP RLJ LODGING TRUST PARK INTERMEDIATE HOLDINGS LLC AURORA CONVENTION CENTER HOTEL LLC STATION CASINOS LLC WYNN RESORTS FINANCE LLC	SEMINOLE HARD ROCK ENTERTAINMENT INC ALTERRA MOUNTAIN CO DGBM CASINO LLC	BALLYS CORP	GOLDEN NUGGET LLC	BOYD GAMING CORP

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