HOTELS AND LEISURE: HORIZONS
A sector outlook

After the dramatic sectoral effects of the pandemic, the main question that keeps prevailing and that interests industry stakeholders and laymen alike , is whether the health of the industry is in long-term decline or is a full recovery already near.

It is no wonder that general interest is so palpable. Before the pandemic, large gateway cities such as London, Paris, Barcelona, New York, Los Angeles, and other major destinations welcomed tens of millions of international visitors annually, that supported nets of local service providers from hotels, restaurants, bars to events and entertainment venues, and filled the streets with life and colour. Some of these leading travel destinations many times shared the common scene of locals going for their walks, only to find some well-known, at other times fully booked restaurant terraces staring back to them empty.

Global tourism suffered its worst year on record in 2020, with international arrivals dropping by 74% according to data from the World Tourism Organization (UNWTO). Destinations worldwide received approximately 1 billion fewer international arrivals in 2020 than in the previous year. By Q3 2021, global tourism recovery has started, and that recovery prerequisites around the world are the same. The most reliable indicators of demand upswings are 1) evolution of Covid-19 case numbers in a travel destination 2) The rate of vaccinations 3) Travel restrictions or the lack of them in place. These three combined lead to the strengthening of trust of travelers in that traveling, armored with a vaccine, does not hold significantly more health risks than traveling locally/domestically, working in an office, riding the subway or doing daily errands around the city.

It is visible and seems to remain true, that leisure destinations continue to enjoy record breaking influxes of guests, whilst corporate demand is still at the baseline of recovery on a global scale. At the same time there is a consensus that the hotels and leisure sector does rebound which is clearly reflected in the stock prices and market capitalizations of leading sectoral corporations that are primarily involved in owning, operating, branding, and licensing. These companies are also represented in the S&P1500 Hotels Restaurants & Leisure Industry Index which, against all odds, shows strong investor confidence that translates to a general anticipation that size and profitability of these market players will not only rebound, but eventually exceed pre-pandemic levels in the long run. Analyzing select top10 hotels corporations based on market caps, Marriott International (NSDAQ:MAR) peaked pre-pandemic at USD152.73 in December, 2019: and grew to an all-time record of USD160.04 by the 17th October, 2021 (!), beating all prior market expectations. Hilton Worldwide (NYSE:HLT) peaked in January, 2020 at USD113.92, which skyrocketed to USD144.52 by the 17th October, 2021, whilst InterContinental Hotels Group (LON:IHG) reached and slightly exceeded its February 2020 max (GBX5022 to GBX5088 on the 17th October 2021). Although, these stocks all benefit from the across-the-board growth of global stock markets, one can't unsee the signs of long-term trust from investors towards the hotels and leisure sector.

In terms of profitability of corporations in the sector, during an already sensitive recovery period, when focus is both on revenues and costs, financial recovery is partly held back by the recent surge in energy prices that have sent waves through global markets and hit airlines directly. Besides airlines, hotels and other sector stakeholders are feeling the impact in energy costs and a general price increase from suppliers. Another everyday challenge is the prevalent labour shortage and the ever-increasing payroll costs that put pressure on the already compressed profit lines. Despite these challenges, investors seem to have become more resilient after living through 2020's extreme volatility, and it is seen that travel demand continues to recover and both airline average load-factors and hotel-occupancy KPIs beat analysts' anticipations.

The pandemic has caused the largest disruption in the history of the travel and tourism and has also facilitated changes that may stay with us (most notably a perceptible corporate travel intensity fallback, an element of which has been replaced by online meetings and remote work solutions). Another focus that had already been present but quickly accelerated is ESG as a strategic priority both true in aviation and in hotel investment and operation. We, at Moore Global strongly believe, that ESG is of critical importance, and that the travel industry's recovery needs to be realized in a more sustainable framework compared to the pre-pandemic era. In terms of a general rebound, based on the industry fundamentals (and a deeply rooted travel motivation of humans), we also believe that the trajectory of travel remains strong and overall demand volumes continue to grow, and will gradually exceed the now called "golden 2019" figures.

MARTON TAKACS
Head of Hotels and Toursim Advisory
Moore Hungary
marton.takacs@mooreglobal.hu