FitchRatings

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Fitch Ratings Sees Limited Impact of Coronavirus for Most Hoteliers

Fitch Ratings-Paris-17 February 2020: The limited exposure of most Fitch-rated hotel operators to Chinese outbound tourism and their geographical diversification limits the credit impact from the coronavirus outbreak, Fitch Ratings says.

If the outbreak remains limited in duration and affected territories, the pressure on the credit profiles of most Fitch-rated hotel groups should be absorbed within their rating headroom even for those groups that are most exposed to China, notably JinJiang International Holdings Co Ltd (BBB+/Stable) and Accor (BBB-/Stable).

The vulnerability of the lodging sector to external factors such as geopolitical turmoil (e.g. the Arab Springs or terror attacks), health issues (e.g. the SARS in 2003) or weather conditions (e.g. Irma hurricane in 2017) are risk factors encapsulated in the ratings of hotelier groups.

China is the largest outbound market in the world by number of travellers. The virus impact on tourism is accentuated by the recent Lunar New Year holiday, one of the busiest seasons for Chinese tourists. However, around 75% of these travellers travel within China.

China's lodging sector is dominated by JinJiang, one of the world's largest hotel groups. The group stated that occupancy rates are currently in the single digits and it will likely incur a loss in 1Q20. Assuming this disruption only lasts a few months this incident is not likely to affect Fitch's standalone credit profile assessment of JinJiang (b+*) as its business profile remains intact. Its diversified geographical footprint (hotels in Hubei province accounts for less than 5% of JinJiang's hotel portfolio) and large operating scale provide the group with the operating flexibility to weather any temporary challenges. Furthermore JinJiang is a government-related entity in Shanghai and is likely to benefit from potential supportive measures introduced by the government. These include medium-term loans from state-owned banks at favourable interest rates, tax waiver, social security expense deferral and financial subsidies.

Europe, a well-established tourist destination, is not highly dependent on Chinese travellers despite their growing interest on expanding horizons. Additionally, continued air traffic interruption to China could lead to more European or US travellers staying in Europe, therefore offsetting the impact of the decline of Chinese travellers on occupancy rates.

The trend of European hoteliers shifting business models to asset-light, more resilient fee-based operations, will help smooth the downturn, if the outbreak remains temporary. The fees received for managing hotels are partially protected from revenue per average room (RevPAR) volatility, while property owners are more exposed to a decrease of room revenues. By segment, we estimate that the mid-scale segment should suffer more than the upscale, given the preference of Chinese travellers for "value-for-money" alternatives.

Accor, with 30% of total rooms and around 20% of EBITDA in APAC, holds a leading position in this region due to rapid expansion of its room portfolio under its asset-light model. Despite its presence in China (where it operates 10% of its total rooms, including eight hotels in Wuhan), this country contributes to less than 4% of its EBITDA. Besides, 97% of Accor's 1,100 hotels in the Asian continent are operated under management and franchise contracts, and thus are less exposed directly to sector challenges.

However the combination of the coronavirus together with the bushfires in Australia (where Accor owns Mantra, an asset-heavy subsidiary with estimated contribution of around 10% to the group's 2018 EBITDA), will weigh on Accor's RevPAR in the region in 2019 and 2020. Fitch expects that if the virus outbreak reaches its peak in 1Q20, the deleveraging path of Accor could be somewhat delayed but not materially affected over our four-year rating horizon.

Other European and US operators are less impacted by the coronavirus crisis, either because the share of Chinese guests is not meaningful (NH Hotel group; B/Stable or Whitbread; BBB/Stable) or because the footprint in China is restricted to few managed hotels (Melia; less than 2% of its hotels in China and Marriott (BBB/Stable); less than 1% of its hotels in China). Nonetheless, collateral effects such as the cancelation of the Mobile World Congress in Barcelona may impact these Spanish operators, although NH Hotel operates 4% of their hotels and Melia 2% in this city. Also, the investments made by European hotels to attract Chinese tourists, such as rebrandings, accelerated pipelines, new payment methods, or adapted menus, may see their payback delayed if the coronavirus outbreak persists.

Although Radisson Hotels Holding AB (B+/Stable) does not operate in APAC, it is a 94%-owned subsidiary of JinJiang, and as such its rating is aligned with the standalone credit profile of JinJiang as per Fitch's Parent Subsidiary Linkage criteria. A weakening of JinJiang's standalone credit profile, if it materialises, would lead Fitch to reassess the rating of Radisson. The same criteria applies to NH Hotels and its parent company Minor, the diversified Thai conglomerate, which operates around 7,000 rooms in Asia including China, where it only holds management contracts.

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