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Sun shining on leisure industry: Resorts, cruise line and casino stocks a good bet

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Planes, trains and automobiles will deliver visitors to their vacation destinations this summer. For the U.S. leisure industry and investors in its stock, they can't arrive soon enough.

Well-heeled Baby Boomers and bargain-hunting foreign tourists, it is hoped, soon will be filling hotels, cruise ships, casinos and auto-racing stands to capacity.

The fly in the suntan lotion is the possibility that oil prices could spiral hopelessly out of control, calling off all bets. Nagging oil concerns have slowed leisure industry earnings this year.

Yet some companies have successfully hedged their bets. For example, banking on the booming Las Vegas economy, casinos and resorts there have been wooing local residents to their properties with entertainment, movie theaters and restaurants.

Boyd Gaming Corp. (BYD), an operator of 17 casinos in nine gaming markets, last year acquired Suncoast Casinos Inc., which puts an emphasis on attracting Las Vegas-area citizens. Its stock price has more than doubled.

Odds are strong that an influx of foreign visitors will capitalize on the weak U.S. dollar and visit our shores. The unfavorable exchange rates also should keep more Americans stateside.

Starwood Hotels and Resorts Worldwide Inc. (HOT), known for Sheraton and Westin hotels, has a significant presence in New York, where a multitude of European tourists stay. Hilton Hotels Corp. (HLT), famous for Hilton, Doubletree and Embassy Suites, is a dominant player in popular Hawaii. Theme-park powerhouse Walt Disney Co. (DIS) also could be a beneficiary.

While rising fuel prices have restrained the stock prices of cruise lines, fuel costs comprise only 6 percent of their expenses, and they are not nearly as affected as airlines.

Stock in Carnival Corp. (CCL), owner of cruise lines Carnival, Princess, Holland America, Costa and Cunard, and Royal Caribbean Cruises Ltd. (RCL), owner of Royal Caribbean and Celebrity, seem attractively priced.

"The leisure sector, especially resorts and cruise lines, should see strong growth even in down markets, as Baby Boomers begin to retire," predicted Adrian Bachman, portfolio manager of the \$33 million Rydex Leisure Fund (RYLIX), which has a three-year annualized return of 5.87 percent.

Bachman's computer models, which take into account value, growth, technical indicators and earnings quality, favor stock of Boyd Gaming and Walt Disney.

"You don't have to time your investments in leisure stocks because they will produce superior long-term results due to the changing lifestyles of current retirees and Baby Boomers," said **Michael Bischoff, certified financial planner and chief operating officer of Webb Financial Group in Bloomington, Minn.** "Investing in this sector is like investing in a good growth fund."

Demographics are an important consideration. There are 78 million Baby Boomers, with \$2 trillion in disposable income to be used for personal "look and feel good" items, finances, nesting, life and leisure enjoyment and experiences of exploration and escape. Those last two items are a boon for the leisure industry.

Bischoff's play on this is to invest in AIM Leisure Fund Class C (IVLCX), with a three-year annualized return of 4.53 percent, or Fidelity Select Leisure Fund (FDLSX), with a three-year annualized return of 7.85 percent.

"Cruise lines have benefited from the weaker U.S. dollar because more foreigners are cruising in U.S. waters, such as the Virgin Islands," said Joseph Hovorka, senior vice president of equity research in consumer, entertainment and leisure at Raymond James in Atlanta. "Furthermore, U.S. travelers to Europe can travel on a cruise more cheaply than a land-based vacation."

Besides Carnival and Royal Caribbean stock, Hovorka sees value in Brunswick Corp. (BC) and Polaris Industries Inc. (PII), because the weak dollar makes Brunswick boats and Polaris all-terrain vehicles and snowmobiles less expensive for export markets.

More Americans also are attending motor sports events, not just on vacation but throughout the year.

International Speedway Corp. (ISCA) in NASCAR and entertainment complexes increased its visibility with a large TV contract through 2006. Since NASCAR fans buy tickets well in advance, it isn't significantly affected by rising oil prices, said Hovorka, who recommends the stock.

"Some recreational products and services, especially the cruise lines, have done well this year despite the upward spike in oil prices," said Matthew Quinn, senior equity analyst with Zacks Investment Research in Chicago.

Like Bachman, Quinn favors Boyd Gaming. He also likes Starwood and Hilton shares. Another recommendation is Station Casinos Inc. (STN), which owns eight hotel/casino properties and five smaller casino properties in Las Vegas, manages a casino for a Native American tribe and is the developer of the Red Rock Resort Spa and Casino.

MGM Mirage Inc. (MGG), which owns the famous destination Las Vegas strip properties Bellagio, MGM Grand Las Vegas, The Mirage and Treasure Island, in addition to properties in other parts of the U.S. and Australia, has excellent prospects, said Quinn.

Finally, the economy seems to be doing its part.

"The U.S. economy is really not in bad shape, with the gross domestic product expected to grow 3.3 percent and unemployment at only 5.2 percent," said Jeffrey Tjornehoj, research analyst with Lipper Analytical Services in Denver. "That means people will continue to take vacations -- just so long as oil doesn't reach spectacular price levels."