

Atlantis 'strong': Up 27% with Baha Mar

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investment analysis firm which assigned the highest "triple-A" rating to the most senior financing tranches in Atlantis's multi-billion dollar debt move.

Morningstar, which toured Atlantis on May 14-15 this year, and held talks with senior management

including president and managing director, Audrey Oswell, disclosed that "the largest topic of discussion was the impact of the opening of Baha Mar". It branded the latter as "the biggest threat to Atlantis' performance".

Concerns have been voiced ever since the Baha Mar project was unveiled in 2004-2005 that it would split,

rather than grow, the market for high-end stopover visitors with Atlantis, resulting in a situation where both mega resorts "cannibalised" each other's business and engaged in a "race to the bottom" on price by discounting room rates.

Morningstar, though, appears to have been reassured that Atlantis will be able to withstand the

challenge from Cable Beach by both the Paradise Island resort's strong winter 2018 performance and its more diverse visitor base.

Its representatives even toured Baha Mar during the same Nassau visit, and found: "We observed that it is designed to cater more to affluent adults and millennials rather than to families.

"With accommodations at varying price points and activities catering to children as well as adults, Atlantis is able to draw demand from a diverse set of groups, appealing to families and individuals alike. Further, Baha Mar does not offer the extensive on-site water and marine attractions that are key demand and revenue drivers at the Atlantis."

Turning to the optimism of Atlantis executives, Morningstar added: "Management feels strongly that Atlantis will maintain its operating performance on a long-term basis given the resort's brand affiliation with Marriott's Autograph Collection; the property's superior overall amenities and activities package; increased airlift capacity at LPIA; and the potential to increase visitation by cruise ship passengers.

"Management also shared financial information which shows that despite the opening of Baha Mar and additional displacement of rooms down for renovation at Atlantis, net operating income at the property increased by approximately 26.6 percent (\$10.4m) in the first quarter of 2018 as compared to the first quarter of 2017."

Morningstar added that Atlantis's annual net operating income had increased by 22 percent, or almost \$30m, in the six years since Brookfield replaced Kerzner International as the Paradise Island resort's owner.

"Since the sponsor [Brookfield] took ownership of the property it has invested approximately \$213m in capital improvements, which have contributed to the increase in the property's net operating income from approximately \$133.2m in 2012 to approximately \$162.6m as of the trailing 12-month period ending March 2018," the analyst's report said.

"Notable projects include a soft goods renovation at The Cove and The Beach [Towers], a casino renovation including a high-limit gaming salon, new restaurants, lobby refurbishments, and pool renovations including the addition of new cabanas and daybeds.

"From 2016 to

2017, [Brookfield] invested approximately \$25.4m (\$40,448 per room) on a comprehensive renovation of the Coral [Towers]. The renovation was completed, and all rooms have returned to full operation as of June 2018. [Brookfield] has budgeted approximately \$8m (approximately \$32,000 per room) for a 2018 renovation of approximately 250 rooms at The Royal Towers, which will include a replacement of both soft and case goods."

The Royal Tower renovations will take place in fall 2018, with an extra \$4.6m to be spent this year to complete the Coral Towers upgrades. Morningstar said Atlantis management also divulged their strategy for the Beach Towers, and their "potential release" from the collateral securing the \$1.85bn refinance.

"The Beach is located at the eastern portion of the property and is somewhat isolated/distant from the main attractions of the resort (water park, casino)," the report said. "The tower has its own pool and two integrated food and beverage outlets.

"Part of its business plan includes the possibility of renovating the tower to create an all-inclusive resort concept where guests would have exclusive access to the food and beverage options at the tower plus ability to pay for use of the Aquaventure water park, as well as additional dining options at the resort.

"As the Beach [Towers] is the lowest ADR (average daily rate) tower, guests typically have lower ancillary spend and the sponsor believes it could increase value and capture greater revenue with an all-inclusive option," Morningstar continued.

"Given the large amount of capital expenditures that would be required to complete such a project, which would not be permitted under typical loan documentation, the sponsor [Brookfield] would instead be able to release the Beach Tower if it elected to pursue this strategy."

Morningstar described the Royal Towers as looking "a bit dated and worn but still showing well", hence the need for the upcoming \$8m renovation. It noted the resort's diverse income streams, with room revenue generating just 28.2 percent of total revenues between 2013 and 2017. Food and beverage, and the casino, held a 27.9 percent share and 18.9 percent respectively.

"From 2014 through 2017, 42.9 percent of guests at

the resort have been families travelling with at least one child under the age of 17," Morningstar's report revealed. "The property's amenities include an approximately 60,000 square foot casino; 40 food and beverage outlets; approximately 500,000 square feet of meeting and convention space; 39 retail outlets; a 62-slip marina; a 141-acre water park; a 14-acre dolphin habitat; and the largest open-air marine habitat in the world which encompasses 14 lagoons, holds approximately eight million gallons of ocean water and provides a habitat for over 50,000 aquatic animals representing over 250 marine species.

"The property has a diversified revenue stream as a result of the resort's amenity base. Since 2013, room revenue has averaged 28.2 percent of total revenue at the property, with the remaining 71.8 percent of revenue coming from the resort's amenities and other sources. Visitors from cruise ships generate a substantial amount of revenue at Atlantis as various packages are sold that provide for the use of resort amenities while the ship is docked during the day.

"Atlantis is able to capitalise on cruise ship demand for the resort's multiple experiences through numerous package offers, and is also able to control cruise ship access to prevent overcrowding. Although the high level of non-room revenue could be viewed as a risk because of its greater historic volatility, it benefits the property by diversifying cash flow, with both guests and non-guests willing to pay a fee for access to the extensive list of amenities."

Atlantis's customer base remains dominated by US visitors, who accounted for 87.5 percent of room night demand in 2017. Guests from Canada and the UK totalled 7.4 percent of 2017 room night demand, resulting in approximately 94.9 percent of the property's guests arriving from the US, Canada and the UK," Morningstar added.

The Atlantis refinancing includes a \$1.2bn mortgage secured on the resort's Paradise Island real estate assets, plus three tranches of inferior mezzanine debt financing worth a collective \$650m.

Morningstar said one of the concerns with the refinancing is that it returns some \$149m to Brookfield. "With less skin in the game, the sponsor [Brookfield] may be less likely to support the loan during a protracted downturn," it warned.

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