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INVESTORS SERVICE

CREDIT OPINION
30 January 2019

Update

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RATINGS

Concordia University, Quebec

Domicile	Canada
Long Term Rating	Aa3
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Concordia University, Quebec

Update to credit analysis

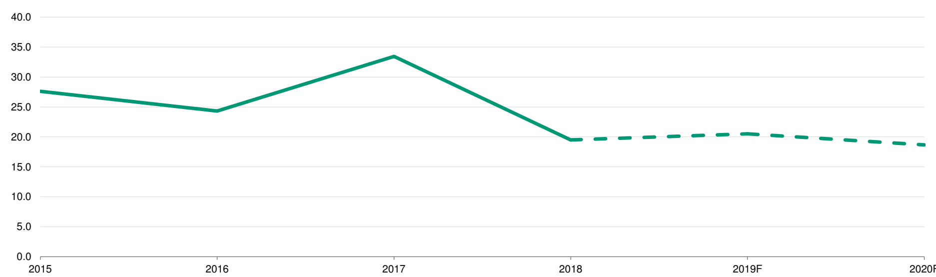
Summary

The credit profile for Concordia University (Aa3 stable) reflects the university's strong institutional management and market profile which has helped the university navigate recent funding pressures, it's low and affordable interest burden and adequate level of total wealth. These positives are balanced by the challenging funding framework in the province of Québec that puts pressure on revenue growth, low levels of own source liquidity relative to peers and our expectation that the university's debt burden will remain high but affordable. The university's rating is strongly underpinned by the high probability that the Province of Québec (Aa2 stable) would step in to support the university should it require emergency sources of liquidity.

Exhibit 1

Leverage is expected improve over the medium term but remain high for an Aa3 rated entity

Operating Cash Flow x Total Debt



Source: Moody's Investors Service, Concordia University Financial Statements

Credit strengths

» Improving fiscal profile and strong market position will support improved cash flow generation

» Low, affordable interest expense as debt is supported by provincial subsidies

» Adequate level of total wealth

Credit challenges

» Weak levels of own source liquidity

» Capital requirements expected to drive increase in debt

Rating outlook

The outlook is stable. This reflects our forecast that cash flow will improve over the medium term as the university continues to make efforts to return to balance.

Factors that could lead to an upgrade

A sustained material improvement to operating cash flow generation as a result of positive budgetary balances, and reduced reliance on its lines of credit, could put upward pressure on the rating. A material increase to liquidity could also place upward pressure on the rating.

Factors that could lead to a downgrade

A material deterioration in cash flow generation, resulting from a longer than forecasted period of budgetary deficits could put downward pressure on the rating. Additionally, a material increase in debt beyond forecasted levels could put downward pressure on the rating.

Key indicators

Exhibit 2

Concordia University

Year ending April 30

	2014	2015	2016	2017	2018
Operating Revenue (CAD 000's) [1]	506,508	509,563	503,474	534,518	551,607
Annual change in operating revenue (%)	5.6	0.6	(1.2)	6.2	3.2
Operating cash flow margin (%)	(0.7)	4.5	5.4	3.8	6.2
Total cash and investments (CAD 000's)	158,978	171,214	173,362	200,108	192,203
Spendable cash an investments to operating expenses (x)	0.14	0.15	0.14	0.18	0.17
Total debt to cash flow (x)	(174.9)	27.6	24.3	33.4	19.5

Source: Moody's Investors Service, Concordia University Financial Statements

Detailed credit considerations

Baseline credit assessment

The credit profile of Concordia University, as expressed by it's Aa3 stable rating, combines a baseline credit assessment (BCA) for the university of a2, and a high likelihood of support from the Province of Québec in the event that the university faced acute liquidity stress.

Improving fiscal profile and strong market position will support improved cash flow generation

Concordia University's revenue growth and cash flow generation will improve over the medium term, driven by the deregulation of international tuition fees of undergraduate and non-research programs and lower expense growth than previously recorded. Beginning in the 2019/20 academic year, the restriction on international tuition rate increases will be lifted in Quebec. This change will enable the university to capitalize on its strong international reputation in order to grow revenues while also keeping more of the international tuition that it generates. On the expense side, the university's previously undertaken initiatives, such as a voluntary retirement program, will realign spending both in the short and long term. These moves have helped reduce the pace of operating expenditure growth, however the university still faces pressure to increase investment in key strategic areas in order to remain competitive.

Concordia's strong market profile and unique blend of program offerings continues to support strong enrolment, a key driver to revenue growth. International students as a share of total enrolment has grown modestly over the past several years and as of 2018 represented just under 20% of total enrolment. This strong share of international enrolment highlights university's ability to attract international students based on its strong educational and market profile. Concordia is one of only two major English language universities in the francophone province of Québec, a unique market niche which bolsters its market position. The university's programming attracts non-traditional students such mature students attracted to professional training rather than traditional curriculum, which reduces the university's exposure to the current demographic cycle in the province.

Low, affordable interest expense as debt is supported by provincial subsidies

Concordia's debenture debt measured CAD667 million as of April 31, 2018, of which CAD346.2 million is supported by provincial debt service subsidies under Québec's grant bond program. These bonds are issued to support approved capital expenditures, and the debt service associated with the bonds is fully supported through provincial debt subsidies. While we include all of the University's debt in the calculation of total debt, the substantial provincial subsidies reduce the fiscal burden of the University's total debt, bringing it in line with peers with much smaller debt burdens.

In addition to the CAD221.7 million of debenture debt not supported by the province of Quebec, the university used CAD101 million of short-term bank lines drawn from unsecured and uncommitted lines of credit at April 31, 2018. These lines are used to finance operations in advance of provincial operating transfers, a portion of which are typically delayed until after year end. The university is expected issue between CAD50 and 100 million of debenture debt in early 2019 in order to refinance several capital projects which had been financed through its lines of credit. While this will reduce the usage of its short term debt, Concordia is expected to use this room on its lines of credit to help finance future capital projects, leading to a moderate, but affordable, increase in debt over the medium term.

Non-subsidized interest payments consumed 2.5% of adjusted operating revenue in 2017/18, or 0.4x Moody's adjusted operating cash flow, a level that is manageable and does not unduly constrain fiscal flexibility. Furthermore, while we expect the university's debt to increase slowly over the medium term, growth in revenues and operating cash flow should ensure interest expense rations remain at manageable levels for the medium-term. The low interest payments ensure Concordia's ability to fulfill its obligations to debt holders.

Adequate level of total wealth

Concordia maintains an adequate level of total wealth, the majority of which is held by the Concordia University Foundation. The university's total cash and investments, which includes cash and investments held by the university itself and under the management of it's Foundation, measured CAD192 million as of April 30, 2018, a slight decrease from the level of CAD200 million in 2017. The decrease was mostly driven by cash outflows to support capital projects. Spendable cash and investments relative to operating expenses registered 0.19x in 2018, and this level is expected to remain broadly stable over the medium term.

The growth of the university's overall wealth over the past several years supports it's commitment to long term planning and strategic investment. Even outside of large fundraising campaigns, the university has been able to generate sizeable donations for both the school and its foundation. The ability to generate donations that support increases to total wealth, and by extension spendable cash an investments, enables the university to continue making strategic investments despite the challenging provincial funding environment over the past several years.

Weak levels of own source liquidity

Despite the adequate levels of total wealth, Concordia records low levels of unrestricted liquidity compared to national peers. Out of the CAD192 million held between the university and its foundation, approximately only CAD82 million of this would be available to the university in the event of acute liquidity stress. This amount is low on a relative basis compared to Moody's rated Canadian peers, however this is primarily driven by the current fiscal framework for higher education in Québec which limits the ability for universities to build unrestricted cash reserves.

A portion of Concordia's accessible liquidity is held as a sinking fund that was established by the university. While the use of these funds is not explicitly restricted, the use of a segregated fund that was established for debt repayment provides security to bondholders nonetheless. As of April 30, 2018, the amount set aside in the sinking fund had a value of CAD60.5 million, equivalent to roughly 27% of Concordia's non-subsidized long term debt.

In the place of strong own source liquidity, Concordia relies on it's line of credit to facilitate its monthly cash flow requirements. As of April 30, 2018, Concordia had drawn CAD101 million on its line of credit, a level that we expect to decline once the university completes its plans to refinance the share of its lines of credit debt that were used for bridge financing for capital projects. The line of credit is primarily used to smooth out cash flow in anticipation of operating transfers from the provincial government. The lines of credit are negotiated with the support of the province of Québec and the fiscal burden carried by the university related to its line of credit is minimal.

Capital requirements expected to drive increase in debt

Concordia's current 2017/18 - 2020/21 capital plan forecasts approximately CAD297 million of in capital projects, with approximately one third requiring debt financing. While the university allocates annual funding to its capital fund, and the province of Québec provides subsidies for capital investment, the current levels are not sufficient to complete the entire capital plan. As the university updates its investment plans to support its future growth, we anticipate external financing would be required for projects that are not currently included in the 2017/18 - 2020/21 capital plan. Depending on pace of the university's fiscal improvements, this incremental financing may put pressure on the university's debt metrics.

The university's ratio of total debt to cash flow is very high for its rating category. At April 30, 2018 the university's ratio of total debt to cash flow measured 19.5x, however over half of this debt is serviced by the provincial government. After adjusting for subsidized debt, the university's debt to cash flow still remains among the weakest of rated Canadian universities, driven mostly by poor cash flow generation in recent years. While the forecasted fiscal improvement of the university should reduce it's leverage over the medium term, this will likely be partially offset by our expectation that the university will acquire debt over this same period.

Extraordinary support considerations

Moody's assigns a high likelihood of extraordinary support from the Province of Québec (Aa2 stable) reflecting Moody's assessment of the risk posed to the province's financial reputation if the university were to default, and because of the university's strategic importance to the province's key policy goal of improving education in Québec. The university's ability to access short-term loans from Financement-Québec in the event of a liquidity emergency further bolsters this likelihood of support.

Ratings

Exhibit 3

Category	Moody's Rating
CONCORDIA UNIVERSITY, QUEBEC	
Outlook	Stable
Senior Unsecured -Dom Curr	Aa3

Source: Moody's Investors Service

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