Rating Action: Moody’s announces the impact of the Province of Ontario’s negative outlook on related ratings

Global Credit Research - 20 Apr 2018

Toronto, April 20, 2018 -- Moody's Investors Service has today affirmed the ratings of six universities in the Province of Ontario. At the same time, Moody's maintained the stable outlook on the ratings of three universities, maintained the positive outlook on the ratings of two universities while the outlook on Ryerson University was changed to negative from stable.

This follows the change in outlook to negative from stable on the Province of Ontario's (Aa2 negative) issuer and long-term debt ratings of Aa2 on 17 April 2018. For full details, please refer to the Province of Ontario press release (https://www.moodys.com/research/Moodys-changes-outlook-to-negative-on-Ontarios-Aa2-ratings--PR_382318). Today's rating action reflects Moody's assessment of the institutional and funding linkages between the Province of Ontario and Ontario universities.

The actions undertaken today are reflected in the following:

Ryerson University -- Senior Unsecured debt rating affirmed at Aa2, outlook changed to negative from stable.

Lakehead University -- Senior Unsecured debt rating affirmed at A1, outlook maintained at stable.

University of Ontario Institute of Technology (UOIT) -- Backed Senior Unsecured debt rating affirmed at A2, outlook maintained at positive.

University of Ottawa, Canada -- Senior Unsecured debt rating affirmed at Aa2, outlook maintained at stable.

University of Toronto -- Issuer Rating affirmed at Aa2, Senior Unsecured debt rating affirmed at Aa2, outlook maintained at positive.

University of Windsor -- Senior Unsecured debt rating affirmed at Aa3, outlook maintained at stable.

RATINGS RATIONALE

RATIONALE FOR AFFIRMATIONS OF RATINGS

The affirmation of the ratings of all universities reflects Moody's opinion that the fiscal pressures currently facing the province will not be transferred to the universities. While Ontario does provide material operating and capital grants to the universities, this level is expected to remain as previously planned by the province.

Furthermore, the universities have the ability to generate a large share of their revenues from own sources, including tuition fees and investment income, and federal research grants. The universities also have unfettered ability to increase international student fees and have the ability to introduce new programs with the province's approval to meet changing demand, which continue to contribute favourably to revenues. Ontario universities also have strong research programs and a diverse program offering that attracts robust student demand which provides resiliency to offset potential provincial pressures.

RATIONALE FOR OUTLOOKS

The maintained stable outlook on three of the universities reflect Moody's assumptions that the intrinsic credit strength, as expressed in their Baseline Credit Assessment (BCA), either supports a university's ability to be rated above the province (for those rated Aa2) should the province be downgraded in the future, or that the intrinsic credit qualities will not deteriorate should the province face further downward pressure (for those rated below Aa2). In particular Moody's noted the BCA of the University of Ottawa is aa2, while the University of Windsor has a BCA of a1 and Lakehead University has a BCA of a2.

The positive outlook maintained for UOIT reflects Moody's continued belief that UOIT will record improvements in its spendable cash and investments, as well as positive cash flow generation. UOIT's relatively lower BCA of baa2 and debt rating of A2 insulate it further from the current pressure facing the province.
Similarly the positive outlook on the University of Toronto reflects the opinion that it will continue to be able to record a strengthening of its balance sheet including increasing liquidity levels, and benefit from its excellent reputation and research strength, as well as high enrolment demand. Moody's notes the BCA for the university is aa2.

The change in outlook to negative from stable for Ryerson University is driven by the outlook change to negative for the province. Moody's current view of the standalone creditworthiness of Ryerson University, reflected in its BCA of aa3, suggests it could not be rated above the Province of Ontario should the province be downgraded in the future.

All universities have a high level of likelihood that the Province of Ontario would provide support should any universities face liquidity concerns.

WHAT COULD CHANGE THE RATINGS UP/DOWN

For Ryerson University, its rating is likely to follow potential future changes in the rating of the Province of Ontario. For full details of potential factors facing the Province of Ontario, please see the separate press release mentioned above. However, Ryerson's outlook could be stabilized if Moody's sees an improvement in the university's intrinsic credit strength including increased liquidity or reduction in debt burden. For those issuers whose stable or positive outlooks were maintained, changes in standalone credit quality, including changes to debt levels, liquidity reserves and operating outcomes, could result in ratings changes. Downward pressure could arise for all if the level of provincial funding were to decrease without an offsetting policy change to allow universities increased flexibility to control own-source revenues.

The methodologies used in these ratings were Higher Education published in December 2017, and Government-Related Issuers published in August 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entities or their designated agent(s) and issued with no amendment resulting from that disclosure.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

The below contact information is provided for information purposes only. Please see the ratings tab of the issuer page at www.moodys.com, for each of the ratings covered, Moody's disclosures on the lead rating analyst and the Moody's legal entity that has issued the ratings.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.
to MOODY’S that you are, or are accessing the document as a representative of, a “wholesale client” and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to “retail clients” within the meaning of section 761G of the Corporations Act 2001. MOODY’S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY’S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.