



## Rating Action: Moody's assigns first-time Aa2 rating to University of Tasmania

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10 Dec 2021

Sydney, December 10, 2021 – Moody's Investors Service has today assigned a first-time Aa2 issuer rating (local and foreign currency) to the University of Tasmania (UTAS). The outlook on the rating is stable. At the same time, Moody's has assigned a Baseline Credit Assessment (BCA) of a1 to UTAS.

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### RATINGS RATIONALE

The Aa2 rating reflects the university's solid standalone credit quality and support provided by the stable institutional framework for universities in Australia. Under this framework, UTAS receives secure and predictable grants from the Government of Australia (the Commonwealth, Aaa stable).

In contrast to its domestic peers, UTAS continues to benefit from a strong level of capital funding support from government, which reflects its very close ties to the Commonwealth and the state, which also incorporates the university's role in state policy implementation.

In this context, UTAS has received AUD225 million in capital grants from the Commonwealth and the state to undertake its AUD363 million Northern Transformation Program (NTP), with remaining amounts to be self-funded by the university. The NTP and Southern Campus Transformation (SCT) will incorporate both new campus development and the progressive transition of the existing Sandy Bay campus in Hobart into the new CBD campus by 2030.

In addition to surplus operating cash flows and planned borrowing, funding for the SCT will also include proceeds from the monetization of surplus assets in line with the masterplan developed for the redevelopment of the current Sandy Bay campus which is designed to generate ongoing revenue streams to support the university deliver on its mission.

The execution risks associated with this strategy are partly mitigated by UTAS' conservative and proactive internal risk management. UTAS' rating also considers some execution risks related to the greenfield development of the planned Sandy Bay campus relocation to the Hobart CBD that initially will be predominantly debt-funded.

Moody's estimates the university's total adjusted debt burden – as measured by total debt adjusted for unfunded pension liabilities, operating leases and guaranteed debt obligations – will peak in fiscal year ending 30 June (fiscal) 2022 at AUD566 million, from AUD322 million in fiscal 2021, or 2.8 times its annual debt service coverage. Accordingly, Moody's measure of the university's total cash and investments/total adjusted debt will reach a low point of 0.8 times in fiscal 2026. However, UTAS' leverage will remain moderate compared with its peers and the credit risks associated with it, tempered by its ample holdings of cash and investments (AUD452 million in fiscal 2020[1]).

The rating is further supported by the university's ample financial resources and liquidity when benchmarked against its peers, as well as by its proven flexibility in managing its costs .

In addition, the rating is supported by the university's strong governance, its unique offering in key educational areas, and robust liquidity and leverage metrics, notwithstanding an expected increase in leverage starting in 2022.

Moreover, UTAS is the sole provider of higher education in Tasmania, the largest employer outside of the government

in the state and is characterised by its very strong operating and research relationships with both the Commonwealth and the state. These characteristics bolster the university's market profile.

By contrast, the state of Tasmania's (Tasmanian Public Finance Corporation) (the state, Tasmania, Aa2 stable) relatively small domestic catchment increases UTAS' reliance on interstate and international students. Adverse demographic trends and implementation risks in UTAS' campus transformation programs pose some constraints to the credit profile.

The issuer rating reflects the university's BCA of a1, considering the above standalone credit qualities and a two-notch uplift to reflect Moody's assessment of a high likelihood of extraordinary support from the Commonwealth.

## RATIONALE FOR THE STABLE OUTLOOK

The rating outlook is stable, reflecting the strong institutional framework and high levels of oversight by the state and Commonwealth governments, as well as Moody's expectation that over the next 12-18 months, the university's credit metrics will remain at levels appropriate for its standalone credit profile consistent with its a1 BCA.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

Environmental risks for the higher education sector in Australia are considered low. Key environmental challenges relate to campus positioning around low lying areas and vulnerability to flooding and storm surges, although we assess this as not material to UTAS' credit profile. Environmental Sustainability is one of six core outcome measures embedded in UTAS' Strategic Plan 2019-2024[2], which includes actions and research to focus on responsible use of agricultural resources and sustainable management of ecosystems, reducing carbon emissions and preserving oceans, promoting sustainable fisheries and aquaculture, reducing waste and pollution.

Social risks are material to rated universities' credit profiles, including demographics, socially-driven government policy, changing student preferences, and labour relations. Demographic and societal trends present the greatest exposure within the higher education sector and non-profit sectors. We assess UTAS' exposure to social risks as moderate, taking a high degree of comfort from how it identifies and actively manages these risks at the highest levels. However, shocks that are social at their origin, such as the coronavirus pandemic, may result in lower demand from postgraduate and international students in addition to higher attrition which will lead to lower than expected income and weaker operating performance. UTAS benefits as a key tool to develop and implement state policy, with state law reform undertaken by UTAS (on behalf of government) as well as various partnerships including management of fisheries and biohazards. During the pandemic, 30 full time equivalent staff were seconded from UTAS to the state to develop and build Tasmania's COVID processes with the university developing the Premier's Economic and Social Recovery Advisory Council (PESRAC) that was implemented by the state. UTAS' 2019-2024 Strategic Plan centres on six key outcomes to make an impact for and from Tasmania and recognizes more than half the university's students were not 'school leavers' and had to balance study alongside work and other commitments. As a result, UTAS plays a key role implementing government social policy that recognizes the state's decentralised population and the need to deepen collaboration with schools as well as enhance the university's regional access, improve pathways and tailor offerings.

Governance considerations are material to rated universities' credit profiles. UTAS' governance is considered strong, reflecting the strong institutional framework for the higher education sector in Australia. The Commonwealth and State Governments play important roles in legislating and monitoring governance of the sector. UTAS standards of governance are considered high and are aligned with the general standards of governance for all Australian public universities. Data transparency is very high, with all material legislation, University statutes and policies published on its website, along with capital plans and accounts.

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Material increases in UTAS' holdings of cash and investments that bolster its liquidity profile, and a sustained improvement in the university's EBIDA margins, which could stem from effective cost controls and robust revenue

growth as it ramps up the delivery of its five-year strategic transformation plan, would likely place upward pressure on the ratings.

A significant deterioration in its financial performance, as reflected in sustained lower EBIDA margins; materially higher levels of debt beyond Moody's projections, which could arise from delays, cost overruns or risk management practices proving less effective than assumed in delivering the Northern and Southern transformation plans; and/or a deterioration in UTAS' internal liquidity levels would likely place downward pressure on the ratings.

Moody's could downgrade the ratings if it believes there is a reduced likelihood of extraordinary financial support from the Commonwealth or if the creditworthiness of the Australian sovereign weakens.

The methodologies used in these ratings were Higher Education Methodology published in August 2021 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM\\_1257002](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1257002), and Government-Related Issuers Methodology published in February 2020 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1186207](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1186207). Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at [http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1288235](http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288235).

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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## REFERENCES/CITATIONS

[1] Public Audited Financial Statements 12-Feb-2021

[2] University of Tasmania Strategic Plan 2019-2024 Jul-2019

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