S&P Global Ratings

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Research Update:

University of Western Ontario Upgraded To 'AA+' From 'AA' On Solid Financial Performance; Outlook Is Stable

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PRIMARY CREDIT ANALYST

Elisa Lopez cortes
Toronto
+1 416 507 2574
elisa.lopez.cortes
@spglobal.com

SECONDARY CONTACT

Adam J Gillespie
Toronto
+ 1 (416) 507 2565
adam.gillespie
@spglobal.com

RESEARCH CONTRIBUTOR

Divy Rangan
CRISIL Global Analytical Center, an S&P affiliate, Mumbai

Overview

- High domestic demand will support enrollment stability at the University of Western Ontario (Western), contributing to healthy operating margins despite limited government funding and the federal cap on international students.
- We believe that Western will sustain high levels of cash and investments while effectively managing a stable debt burden.
- As a result, S&P Global Ratings raised its long-term issuer credit and senior unsecured debt ratings on Western to 'AA+' from 'AA'.
- The stable outlook reflects our expectation that Western will preserve its market position and continue to deliver strong financial performance, supported by its robust liquidity in the next two years.

Rating Action

On Feb. 20, 2025, S&P Global Ratings raised its long-term issuer credit and senior unsecured debt ratings on the University of Western Ontario to 'AA+' from 'AA'. The outlook is stable.

Outlook

The stable outlook reflects our view that, in the next two years, Western will hold a strong market position supported by domestic demand. This will help the university post operating margins of more than 5% of operating expenditure on average while maintaining high cash and investments and a moderate debt burden.

Downside scenario

We could take a negative rating action, in the next two years, if Western experiences a decline in domestic demand that adversely affects its operating performance and its debt burden increases such that cash and investments are no longer sufficient to cover more than 6x debt outstanding.

Upside scenario

Although we view it as unlikely in the next two years, we could raise the rating if Western strengthened its market position. In addition, if the provincial government materially increases its funding to public universities and relaxes its restrictions on tuition hikes, resulting in greater financial flexibility, and if Western's debt service decreases in line with that of 'AAA' rated peers, this could support an upgrade. In this scenario, we would expect our assessment of the university's role and link to the province to remain unchanged.

Rationale

The rating reflects our 'aa+' stand-alone credit profile (SACP) on Western, which is based on our combined assessment of the university's strong enterprise risk profile and very strong financial performance. The rating also reflects our opinion of a moderately high likelihood that the Ontario government could provide extraordinary support in the event of financial distress.

The rating action reflects our expectation that Western will maintain higher cash and investments, compared with those of peers, of more than 10x its debt outstanding, over the next two years. Furthermore, Western will maintain a very strong market position, supported by its superior domestic reputation, evidenced by its stable enrollment levels in line with its strategy, which will help to mitigate challenges related to international student enrollment due to federal policy changes.

A strong domestic market position and solid economic indicators bolster the university's enterprise risk profile

We believe Western has a very strong enterprise risk profile. Supporting our opinion is our assessment of the higher education sector, which is marked by low industry risk due to high barriers to entry and its typically countercyclical nature, making it more resilient during downturns compared with other sectors. In addition, the university benefits from excellent economic fundamentals in its main service area, Ontario, the most populous province in Canada, with high GDP per capita, estimated at almost US$57,100 in 2025.

In our view, Western holds a solid market position, which is supported by strong demand. In 2024, the federal government announced a reduction of approximately 35% in new international undergraduate student permits for the fall cohort, with an additional 10% cut planned for 2025 that will also extend to graduate students. Despite these policy changes, we expect Western's FTE enrollment will remain stable. This is primarily because international students have accounted for an average of less than 15% of FTE enrollment in the past five years, which is relatively low. Therefore, the university's exposure is lower than that of peers. It is important to note that many international fee-paying students are graduates from Canadian high schools, which are a more stable enrollment source than overseas students.

Western demonstrates robust domestic demand, as evidenced by a 22% increase in applications in fiscal 2025. We expect overall enrollment to rise 3.5% with FTE enrollment reaching 41,035 by fiscal 2025. However, we also expect lower enrollment than its historical levels over fiscal years 2026-2027. In addition, in the past five years, an average of 78% of Western students have been from Ontario, highlighting the institution's strong appeal in the region.

Student quality remains strong, as reflected by the university's historically stable retention and graduation rates, which have averaged about 92% and 85%, respectively, in the past several years. Western's first-year selectivity rate (the ratio of offers to applications) improved slightly to 63% in 2025, compared with 68% in 2024, indicating steadily rising demand.

In our view, Western exhibits sound management and governance practices that align well with those of other rated Canadian universities. We consider its transparency and disclosure as good, with policies, procedures, and risk management capabilities to adequately identify, monitor, and mitigate risks. Senior administration's operational effectiveness is evidenced by a track record of strong operating margins and investment policies supporting a stable credit profile.

Founded in 1878 and located in London, Ont., Western is a research-intensive, doctoral university with 12 faculties and schools, including medicine and dentistry, law, engineering, and business. It is a founding member of the U15, Canada's most distinguished research universities. Western also has affiliations with four research institutes, two teaching hospitals, and two university colleges (Huron and King's). In May 2024, Brescia University College fully integrated into Western.

Strong liquidity and manageable debt levels enhance Western's financial risk profile

We consider Western's financial risk profile very strong and resilient, mainly due to stable enrollment, with reduced exposure to international students compared with peers. Western has proactively sought alternative revenue streams by expanding leased space and exploring high-cost self-funding programs, among other initiatives. Its commitment to financial stability has helped stem expenditure growth while it remains open to diverse revenue sources. Western has maintained strategic funding allocation to ensure overall financial health. We expect the university will maintain robust operating balances, averaging 9% of operating expenditures over five years, including two years of forecasts.

Similar to that of Canadian peers, Western's limited flexibility to increase student-generated revenue somewhat offsets the university's strong financial performance. This is primarily because Ontario monitors and guides domestic tuition rates through the tuition framework and enrollment expansion through operating grants, which we do not expect will rise in real terms soon. A freeze on domestic tuition rates for the past several years has meaningfully constrained the university's revenue flexibility; without resorting to expanding international student enrollment, it is difficult for the university to control revenue growth.

In our view, Western has very strong liquidity, a key credit strength that provides a buffer against volatility in operating performance as well as an offset against debt financing for its capital plan. At the end of fiscal 2024, the university held C$3.3 billion in total cash and investments. Total cash and investments have risen steadily over many years, and we expect they will remain sufficient to cover more than 2.4x adjusted operating expenses on the five-year average, including the forecast period.

Western has the eighth-largest endowment among Canadian universities. The endowment market value increased slightly to C$1.3 billion at the end of fiscal 2024 from C$1.14 billion in the previous year.

Western is executing numerous capital projects. The ongoing construction of the Ronald D. Schmeichel Building and the modernization of the Weldon Library are almost completed. These projects are financed through the proceeds of previously issued debentures, reserves, donations, and grants. The comprehensive capital plan also includes the construction of new residences, and research and learning spaces. The construction of a new residence is underway alongside the planning of the Bioconvergence Centre, which will be an interdisciplinary research and learning facility. These initiatives may lead to some depletion of financial resources beyond our base-case scenario.

In our view, Western has a moderate debt burden, with C$310.9 million of total debt outstanding at the end of fiscal 2024. This comprises two 40-year fixed-rate bullet debentures, amounting to C$288.7 million (maturing in 2047 and 2057), and C$22.2 million in 15-year amortizing banker's acceptances sourced from a C$100 million nonrevolving facility maturing in fall 2026. We believe the refinancing risks associated with the bullet debenture are partially mitigated by the time until maturity and the voluntary sinking fund, which exceeded C$47.8 million as of fiscal 2024 year-end.

In May 2024, Brescia fully integrated with Western, with the latter assuming all of Brescia's assets and liabilities, including long-term debt of C$32 million. This integration led to the successful absorption and repayment of Brescia's liabilities, resulting in a net contribution of C$50 million in assets acquired over liabilities without incurring additional debt.

According to its long-term financial plan, the university does not anticipate taking on additional external debt in the next two years. However, it expects to incur more debt beyond this period, with projections indicating that debt levels will peak in 2030. However, we believe debt service coverage will remain strong in the next two years. We estimate that the university's MADS will be 3.1% of adjusted expenses by the end of fiscal 2027. We also estimate that 2027 financial resources, including restricted resources, will cover total debt by 11x, exceeding those of Canadian peers, which we incorporate as a positive adjustment.

Western has a defined-contribution pension plan for current employees, effectively transferring investment risks away from the institution. This compares with certain institutions that might encounter obligations for special solvency payments to address pension plan deficits. Most of Western's postemployment liabilities relate to unfunded nonpension benefits, such as medical and dental. As of fiscal year-end 2024, these liabilities totaled C$408.7 million.

We have not identified any additional contingent liabilities that could materially affect our assessment of Western's credit profile.

Moderately high likelihood of extraordinary provincial government support

The ratings reflect Western's SACP and our belief that there is a moderately high likelihood that the government of Ontario would provide extraordinary support to Western in the event of financial distress. The impact of this potential support on the ratings is considered neutral. This view reflects our assessment of the university's important role in the province, given that postsecondary education is one of Ontario's priorities in both spending and mandate (after health care and school boards).

Moreover, our assessment of Western's important role recognizes the absence of viable private alternatives. The university's substantial size, distinguished reputation, and robust research capabilities make it difficult to replace. The province's oversight, program-approval rights, and tuition regulation over Western suggest a strong link to the government. Also supporting this view is that the province provides substantial operating grants, which account for about a five-year average of 17% of the university's total revenue, and it appoints four of 28 board members.

We rate Western two notches above Ontario. The differential reflects our view that there is a measurable likelihood that the university's financial resources would be sufficient to sustain ongoing operational and debt service obligations even in the event of a government default or temporary suspension of payments. In addition, the differential reflects our belief that Western operates independently of the Ontario government as an autonomous legal entity with ownership of its assets. We consider the risk of extraordinary negative government intervention low, given the university's operational independence, important public policy role, and the government's largely noninterventionist stance toward the sector.

Key Statistics

Table 1

University of Western Ontario--Selected indicators

						Medians*
Mil. C$	**2021**	**2022**	**2023**	**2024**	**2025bc**	**2023**
Enterprise profile						
Full-time equivalent enrollment (FTE; no.)	35,258	36,904	38,013	39,454	41,035	38,162
Annual FTE change (%)	4.5	4.7	3.0	3.8	4.0	(0.3)
Selectivity rate (%)	66.3	63.5	67.1	68.3	63.1	73.7
Undergraduates as a % of total enrollment	82.3	81.4	82.1	82.3	82.1	80.2
Retention rate (%)	93.0	92.0	92.5	92.6	-	85.6
Graduation rates (six years) (%)	85.0	84.5	83.7	85.1	-	
Financial profile						
Adjusted operating revenue	1,280	1,445	1,426	1,533	1,565	N.A.
Adjusted operating expense	1,106	1,184	1,299	1,376	1,460	N.A.
Net adjusted operating margin (%)§	15.7	22.0	9.8	11.4	7.2	2.1
Student dependence (%)	35.6	34.2	36.7	35.5	35.5	36.2
Government operating grant dependence (%)	21.0	18.6	18.8	17.5	17.2	17.2
Endowment and investment income dependence (%)	18.0	7.8	8.6	15.5	9.5	1.4
Cash and investments	2,717.63	2,897	3,024	3,317	3,396	840
Cash & investments to adjusted operating expenses (%)	245.6	244.7	232.7	241.1	232.5	116.1
Outstanding debt	344.61	327	319	311	303	985
Cash & investments to debt (%)	788.6	884.8	947.0	1,066.5	1,118.9	290.2
Maximum annual debt service burden (%)§	2.88	2.72	2.45	2.33	2.17	

bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. *For 'AA' rated U.S. public colleges and universities. U.S. median figures are in U.S. dollars. §As % of adjusted operating expense. N.A.--Not available.

Ratings Score Snapshot

Table 2

University of Western Ontario--Ratings score snapshot

Industry risk score	2
Economic fundamentals	1
Market position	2
Management and governance	2
Enterprise risk profile	2
Financial performance	2
Financial resources	1
Debt and contingent liabilities	2
Financial risk profile	2
Stand-alone credit profile	aa+
Issuer credit rating	AA+

Related Criteria

- Criteria | Governments | General: Global Not-For-Profit Education Providers, April 24, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Not-For-Profit Higher Education Outside Of The U.S. Outlook 2025: Credit Stability Amid Market Turbulence, Dec. 5, 2024
- S&P Global Ratings Definitions, Dec. 2, 2024
- U.S. Not-For-Profit Public College And University Fiscal 2023 Medians: Rising State Funding Offers Hope Amid Continued Demand Pressures, July 18, 2024

Ratings List

Upgraded

	To	From
University of Western Ontario		
Senior Unsecured	AA+	AA

Upgraded; CreditWatch/Outlook Action

	To	From
University of Western Ontario		
Issuer Credit Rating	AA+/Stable/--	AA/Positive/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.