

CIBT Education Group Inc. (TSX: MBA)

Impact of COVID-19 on Education and Student Housing

BUY

Current Price: C\$0.50

Fair Value: C\$1.22

Implied Upside: 144%

Risk: 3

Sector / Industry: Education Services / Student Housing

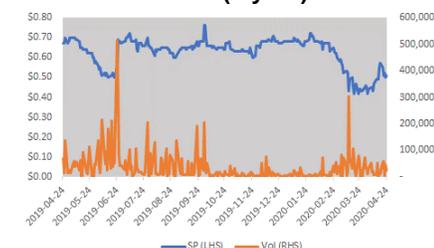
[Click here for more research on the company and to share your views](#)

Highlights

- In Q2-FY2020 (quarter ended February 2020), the CIBT Education Group's ("company", "CIBT") revenue increased 1.6% YOY, to \$16 million, in line with our expectations. H1-FY2020 revenue was up 0.9% YoY to \$33 million. Educational revenue was up 5% YoY, and rental revenue was up 21% YoY.
- EBITDA was \$1.42 million in Q2-FY2020, up 101% YoY, and \$4.71 million in H1-FY2020, up 150%. Note that the company's reported figures are slightly different from our calculations.
- Revenue from the education business in China was down 7% YoY in Q2-FY2020 (quarter ended February 2020) as a result of the impact from COVID-19. However, the education business in Canada (accounting for 95% of the total) reported strong 5% YoY growth as the pandemic only hit North America in March 2020.
- **CIBT campuses in Canada were temporarily closed in mid-March. Our discussions with management indicated that they switched 100% of the classes online, and continue to earn tuition revenue through the pandemic.**
- A benefit to education providers is that a significant portion of the tuition fee is paid upfront, therefore a reduction in classes will result in revenue-deferral instead of revenue-loss. However, there will be negative impact from a decline in new enrollments.
- We feel a lack of international students will impact the company's housing projects. However, management has indicated that there has not been a significant impact on their occupancy rate as a **large percentage of the tenants are long-term stay students.**
- Although CIBT's business will be negatively impacted by the pandemic, we feel that a number of factors are working favorably for them. We have lowered our FY2020 revenue forecast by 11%.

Sid Rajeev, B.Tech, MBA, CFA
Head of Research

Price and Volume (1-year)



	YTD	12M
Ret.	-26.5%	-25.4%
TSX	-14.6%	-11.9%

Company Data (as of May 1, 2020)

52 Week Range	C\$0.40 - C\$0.76
Shares O/S	74,543,540
Market Cap.	\$37.27 million
Yield (forward)	N/A
P/E (forward)	11.7x
P/B	0.7x

Key Financial Data (in C\$); YE - Aug 31	2017	2018	2019	2020E	2021E
Revenues	53,557,863	74,899,921	70,997,000	66,877,241	75,626,097
EBITDA	4,528,612	13,335,253	5,993,000	10,967,865	14,670,732
EBITDA Margin	8.5%	17.8%	8.4%	16.4%	19.4%
Net Income	8,284,034	45,371,165	14,932,000	9,625,612	14,879,184
EPS (Basic)	0.11	0.58	0.20	0.13	0.19
Debt to Capital	43.6%	40.2%	42.6%	46.5%	48.8%
ROE	8.9%	50.5%	5.2%	6.0%	9.2%

*The net profit / loss figures include CIBT's share of the net profit / loss and non-controlling interests.

*See last page of this report for important disclosures, rating and risk definitions. All figures in C\$ unless otherwise specified.

Impact of COVID-19 on Operations

Currently, 95% of CIBT's education revenues come from its Canadian campuses, and 5% from China. In Q2-FY2020 (quarter ended February 2020; which was the peak of COVID-19 in China), CIBT's operations in China generated \$0.69 million in revenue, down 7% YoY. Canadian operations continued to report organic growth (as the pandemic hit Canada only in March) in the quarter, and revenue increased 6% YoY to \$11.83 million.

In FY2019, 55% of the revenue from the education business in Canada were from domestic students

CIBT campuses in Canada were temporarily closed in mid-March. In FY2019, approximately 55% of CIBT's total tuition revenue came from domestic students, with the balance from students from over 40 countries. **Our discussions with management indicated that the company switched 100% of the classes online, and continue to earn its tuition revenue through the pandemic.**

The company has taken measures to cut G&A expenses by reducing its workforce associated with the management of its facilities, while increasing workforce for technical support for online delivery. Approximately 50 employees, among a total of over 600, were temporarily laid-off.

A benefit of education providers is that a significant portion of tuition fees are paid upfront, therefore, a reduction in classes will likely result in revenue-deferral instead of revenue-loss. At the end of Q2, the company had \$25 million in deferred revenue, which is approximately 50% of the company's annual education revenue. However, recruitment for the summer programs will be affected, which will impact the company's H2-FY2020 revenues. **Management has indicated that they will recapture most of the lost revenue as students are not cancelling, but just delaying their plans by a few months.**

A large percentage of tenants are long-term stay students

We feel that a lack of international students will impact the company's housing projects. However, management has indicated that all four of its student housing properties (Granville, Viva, Burnaby Heights, and Pearson) are operational, without a significant impact on their occupancy rates. **This is because a large percentage of the tenants (percentage undisclosed) are long-term stay students and are staying in Canada instead of returning home due to the severity of the outbreak in their home countries.** Also, a high number of students are extending their stay in Canada due to travel restrictions, strict self-isolation requirements when they return to home countries, and the Canadian government's decision to allow students to extend their visas / study-permits.

A decline in international travellers and business visitors will impact the vacancy rate of units allocated for short-term stay such as the GEC Granville Hotel. However, this is likely to be partially offset by the fact that universities have requested students living in dormitory-style buildings to seek alternate arrangements due to community transmission concerns. CIBT believes that, since their properties do not involve a large group of residents having to share washrooms, kitchens and common areas, the chances of community transmission are lower. CIBT is working with universities and colleges to offer their students accommodation at a discounted rate. Management also indicated that several

healthcare workers are renting CIBT's suites instead of staying at home due to concerns of bringing the virus to their families.

In summary, although CIBT's business will be negatively impacted by the pandemic, we feel that a number of factors are working favorably for them. We have lowered our FY2020 revenue forecast by 11% (discussed in detail later in the report). Our current models are based on the assumption that COVID-19 will be contained in the coming months and activities will pick up in the second half of 2020. Factors that can impact the education business includes extended travel restrictions, and any new restrictions on offering classes at physical locations, driving demand for online classes. If education providers start offering more online programs, they can likely maintain their tuition fees, while lowering operating costs (fewer teachers / less G&A expense(s) related to physical locations). We will assess these scenarios in more detail if and when we notice any key trends / shifts in the sector.

On a positive note, CIBT was ranked 372 among Americas' Top 500 Fastest-Growing Companies (based on revenue growth from 2015 to 2018) by The Financial Times. The ranking included companies from the U.S., Canada and South America.

The following table shows a summary of CIBT's student housing projects. **We estimate the total projected cost of projects completed / under development is approximately \$800 million.**

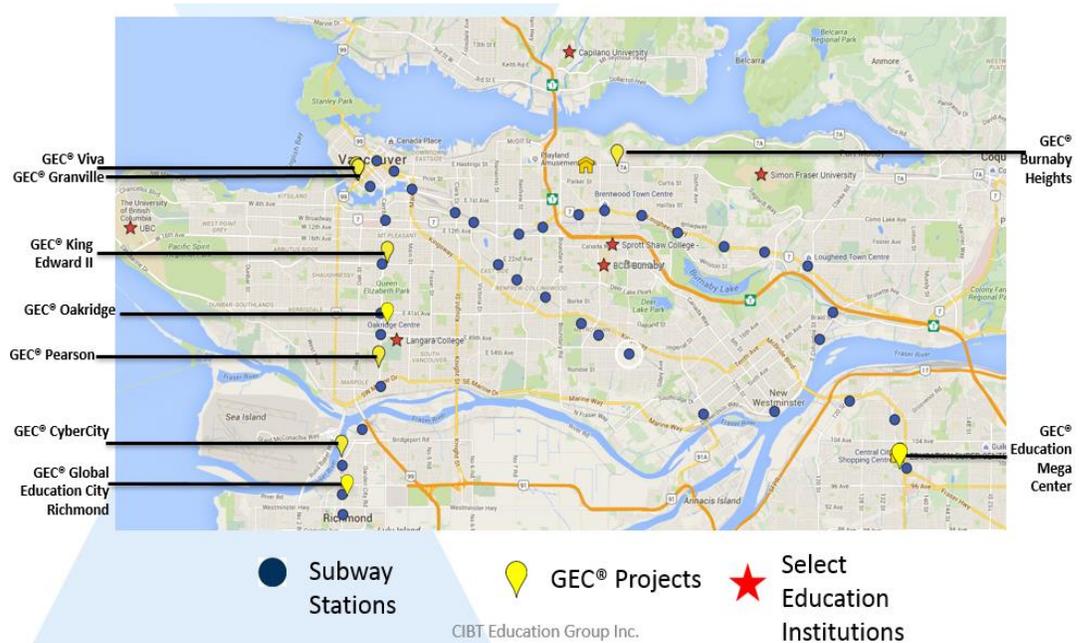
Project Summary

	Viva	Pearson	Granville	Burnaby Heights	King Edward	Cyber City	Mega Center (Surrey)	Richmond	Oakridge	Total
Status	Operating (Stablized)	Operating (Stablized)	Operating (Stablized)	Operating (Stablized)	Rezoning (Estimated to start operating in 2022)	Rezoning (DP submitted in Dec 2019; estimated to start operating in 2023/2024)	Rezoning (took over land title in Aug 2019, expected to start operating in 2023/2024)	Rezoning (DP approved in Nov 2018; BP approved in 2019; expected to start operating in 2022)	Rezoning (Expecting DP approval in November 2021; Construction timeline: 3 years)	
Projected Annual Rental Income (FRC Est.)	\$3,500,000	\$4,400,000	\$8,000,000	\$1,000,000	\$3,200,000	\$14,640,000	\$22,400,000	\$8,720,000	\$8,320,000	\$74,180,000
CIBT Ownership		38.5%	46.7%	25.0%	23.0%	27.0%	21.0%	27.5%	20.0%	
CIBT Management Fee	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	
Purchase Price/Project Costs		\$43,500,000	\$39,000,000	\$19,000,000	\$40,000,000	\$183,000,000	\$280,000,000	\$109,000,000	\$104,000,000	\$817,500,000
Beds	223	341	222	97	193	204	800	466	475	3,021
NOI Estimate (FRC est.)	\$1,560,000	\$3,300,000	\$4,500,000	\$700,000	\$1,920,000	\$8,784,000	\$13,440,000	\$5,232,000	\$4,992,000	\$44,428,000
Cap Rate (assumption)		4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	
Current Valuation (FRC est.)		\$82,500,000	\$112,500,000	\$17,500,000	\$48,000,000	\$219,600,000	\$336,000,000	\$130,800,000	\$124,800,000	\$1,071,700,000
Gain (FRC Est.)		\$39,000,000	\$73,500,000	-\$1,500,000	\$8,000,000	\$36,600,000	\$56,000,000	\$21,800,000	\$20,800,000	\$254,200,000

*Ownership may change with project financing

* Our preliminary rental income estimates were based on approximately 8% of the cost price for each project.

*Management intends to pre-sale certain condos in Cyber City and Mega Center; we have not modeled for this as details remain undisclosed.



Source: Company

Financials

In Q2-FY2020, revenue increased 1.6% YOY, to \$16 million, and was in line with our expectations. H1-FY2020 revenue was up 0.9% YoY to \$33 million. The table below summarizes the company's key divisions and their revenues.

Revenue and Margin by Segment

YE Aug 31st	Q2-2018	Q2-2019	Q2-2020	YOY	2018 (6M)	2019 (6M)	2020 (6M)	YOY
SSC + Others								
Revenues	11,157,989	11,170,990	11,831,000	5.9%	22,020,809	22,889,025	23,807,000	4.0%
Gross Margins	54.81%	58.17%	57.64%		54.03%	57.50%	57.08%	
CIBT								
Revenues	684,734	738,965	687,000	-7.0%	1,322,257	1,485,804	1,455,000	-2.1%
Gross Margins	50.21%	46%	34%		52.59%	47.01%	40.86%	
IRIX								
Revenues	173,347	181,283	297,000	63.8%	550,401	460,729	522,000	13.3%
Gross Margins	115.92%	77%	82%		72.64%	77.61%	81.57%	
Commissions + Referral Fees								
Revenues	174,749	249,110	110,000	-55.8%	479,905	424,037	166,000	-60.9%
Gross Margins	19.44%	47%	48%		24.23%	43.70%	63.52%	
Global Education City								
Revenues (rental)	1,823,019	2,260,929	2,725,000	20.5%	3,844,336	5,589,155	6,408,000	14.7%
Gross Margins	24.59%	27%	53%		25.31%	38.31%	57.02%	
Global Education City								
Development fees	3,642,820	952,590	153,000	-83.9%	3,642,820	1,771,700	553,000	-68.8%
Overall Revenues	17,656,658	15,553,867	15,803,000	1.6%	31,860,528	32,620,450	32,911,000	0.9%
Overall Gross Margins	61.08%	55.77%	56.74%		55.64%	56.09%	57.45%	

Source: Company Data

The company continued to report growth in its two key segments – Educational and Rental. The growth was mostly offset by a decline in development fees, as shown in the table above.

- **Educational revenue was \$13 million**, up 5.1% YoY from organic growth, in line with our estimate. H1-FY2020 revenue was up 3.6% YoY to \$25 million. Based on a potential decline in new enrollments, **we are lowering our FY2020 revenue forecast to \$46 million (previously \$54 million), and our FY2021 forecast to \$51 million (previously \$55 million).**
- **Rental revenue was \$3 million**, up 20.5% YoY, also in line with our estimate. H1-FY2020 revenue was up 14.7% YoY to \$6 million. Revenue came from four properties - Viva Tower, Granville Suites Hotel, Burnaby Heights, and Pearson. The full-capacity revenue potential of these four projects is \$17 million per year. **We are lowering our FY2020 revenue forecast from \$13 million to \$11 million.**
- **Development fees were \$0.15 million**, down 84% YoY. H1-FY2020 revenue from fees was down 69% YoY to \$0.55 million. As we always mention, we are not concerned with this drop as volatility in such fees is expected as its recognition depends on the timing of projects. These fees are non-cash, as CIBT uses these fees to acquire an equity interest in projects. Based on the current development schedule, we are adjusting our FY2020 forecast from \$7

Core businesses reported strong revenue growth in Q2

Revising revenue forecasts

million to \$8 million.

Based on the above, we are revising our FY2020 revenue estimate from \$75 million to \$67 million, and our FY2021 estimate from \$80 million to \$76 million.

Gross margins increased YoY from 55.8% to 56.7% in Q2-FY2020, due to a **strong increase in rental revenue gross margins (27% to 53%)**.

Margins

	Q2-2018	Q2-2019	Q2-2020	2018 (6M)	2019 (6M)	2020 (6M)
Gross	61.1%	55.8%	56.7%	55.6%	56.1%	57.5%
EBITDA	17.6%	4.5%	9.0%	8.1%	5.8%	14.3%
EBIT	15.8%	1.0%	2.5%	5.7%	2.5%	8.2%
EBT	10.6%	-9.2%	-6.1%	0.2%	-7.6%	-1.5%
Net	10.7%	20.6%	26.3%	0.2%	-7.6%	-1.5%

*YE is August 31st

Source: Company Data

The company reallocated some expense line items from G&A to interest expense in H1-FY2020. Since we do not have comparable YoY amounts, we reviewed the total amount and noticed a 6% YoY decline to \$9 million in Q2-FY2020, and a 7% decline to \$18 million in H1-FY2020. When asked management about the impact on G&A expense from safety measures and cleaning due to COVID-19, management indicated that although they have enhanced safety measures, their housekeeping expense has declined as most students have opted for no in-suite cleaning temporarily. Management expects a 20% decline in G&A expense in H2-FY2020. Although management did not comment on the long-term impact, we feel the company will have to significantly increase its budget for safety measures at offices and campuses. **Our FY2020 estimate has been revised from \$40 million to \$38 million.**

EBITDA up 150% YoY in H1-FY2020

EBITDA was \$1.42 million in Q2-FY2020, up 101% YoY, and \$4.71 million in H1-FY2020, up 150%. Note that the company's reported figures are slightly different from our calculations.

The company reported a \$6.42 million gain in the **valuation of properties in Q2-FY2020 versus \$5.00 million in Q2-FY2019**. Since inception of the real estate business, the company has reported total gains of \$98 million. The table on page 3 shows our estimates of the expected increase in valuations of the assets. We estimate the company will report a total valuation gain of \$27 million over FY2020 and FY2021. Note that this gain is from a potential increase in valuation of CIBT's projects as they are advanced from pre-development to construction stage. As we expect the rental market (especially for affordable housing) to remain tight in Vancouver, we do not expect a decline in our valuations of CIBT's projects when completed (2022 to 2024). Note that we are using a conservative 4% cap rate for our valuation while the average cap rate for rental buildings is currently

approximately 3%.

After deducting non-controlling interests, CIBT reported net income of \$4.04 million (EPS: \$0.05) in Q2-FY2020, versus a net loss of \$0.13 million (EPS: -\$0.00) in Q2-FY2019. In H1-FY2020, net income was \$4.00 million (EPS: \$0.05) versus \$1.05 million (EPS: \$0.00) in H1-FY2019.

We are **revising our FY2020 net profit estimate** from \$6 million / EPS: \$0.08 to \$3 million / EPS: \$0.04. Our FY2021 estimate has been revised from \$7 million / EPS: \$0.10 to \$5 million / EPS: \$0.07. Note that these figures are net of non-controlling interests.

As a result of the stronger EBITDA, funds from operations increased 79% YoY to \$3.50 million in H1-FY2020. Free cash flows were -\$34.20 million in H1-FY2020 versus -\$1.23 million in H1-FY2019, due to the significant cash outlay related to investments in GEC Oakridge.

Summary of Cash Flows			
(C\$, mm) - YE Aug 31st	2018 (6M)	2019 (6M)	2020 (6M)
Operating	\$10.85	\$1.24	-\$1.49
Investing	-\$17.51	-\$2.46	-\$32.51
Financing	\$13.76	-\$11.32	\$30.57
Effects of Exchange Rate	\$0.10	\$0.05	\$0.06
Net	\$7.20	-\$12.49	-\$3.38
Free Cash Flows to Firm (FCF)	-\$6.66	-\$1.23	-\$34.20

Source: Company Data

At the end of Q2-FY2020, the company had \$12 million in cash. The debt to capital was at 50%. We estimate that the average debt to capital of REITs presented later in this report is approximately 54%.

Liquidity & Capital Structure	2017A	2018A	2019A	Q1-2020	Q2-2020
(C\$) - YE Aug 31st					
Cash + Restricted Cash	\$7,129,892	\$33,495,798	\$15,462,000	\$17,473,000	\$12,080,000
Working Capital	-\$40,534,349	-\$18,624,069	-\$31,168,000	-\$62,827,000	-\$73,081,000
Current Ratio	0.32	0.75	0.62	0.46	0.41
Debt/Capital	43.61%	40.24%	42.61%	43.48%	50.20%
EBIT Interest Coverage	1.3	2.0	0.6	0.9	0.3

Source: Company Data

Working capital was -\$73 million at the end of Q2-FY2020, versus -\$31 million at the end of FY2019, due to the reclassification of certain mortgages from long-term to short-term. Management has indicated that these mortgages will be either renewed or refinanced. As interest rates have dropped this year, we expect the renewal / refinancing to be at lower rates.

The company has 3.49 million options (exercise price between \$0.37 and \$0.86 per share), and nil warrants outstanding.

Our revised fair value estimate is \$1.22 per share versus our previous estimate of \$1.39 per share. The valuation dropped due to a combination of our lower revenue forecasts as well as a decline in comparable multiples. We reiterate our BUY rating and adjust our fair value estimate on CIBT's shares to \$1.22 per share.

	EV / Revenue	EV / EBITDA	P / B
American Campus Communities	9.20	17.60	1.50
Education Realty Trust (acquired)	11.00	21.45	1.60
Pure Multi-Family REIT LP (acquired)	10.50	20.80	1.10
Killam Apartment REIT	12.80	22.80	1.00
Morguard North American Residential	9.20	18.97	n/a
Northview Apartment REIT	12.00	23.00	1.10
Average (excl. outliers)	10.38	20.36	1.18

	Projected Annual Revenues	Projected EBITDA	Projected Book Value
\$, millions	\$74.18	\$36.97	\$163.50
	(FRC est.)	(based on a peer average EBITDA margin of 49.8%)	20% of the est. cost of \$0.82B
Fair Value of 25.4% Equity (\$, millions)	\$29.50	\$25.11	\$48.86
Average (\$, millions)	\$34.49		

Valuation	Fair Value	Fair Value per Share
Education Management		
* Discounted Cash Flow @ 10%	\$53,652,604	\$0.72
* EV / Revenue @ 1.2x	\$59,618,663	\$0.80
Average	\$56,635,634	\$0.76
Student Housing (GEC)	\$34,488,982	\$0.46
Fair Value Estimate	\$91,124,615	\$1.22

Source: FRC / S&P Capital IQ

Risks

The following risks may cause our estimates to differ from actual results (not exhaustive):

- The impact of COVID-19 is uncertain.
- Competition in the private education business in Canada is high.
- Real estate development and financing risks.
- Health of the rental market in Vancouver.

- The company's profitability is highly dependent on the health of the student housing real estate market in the Greater Vancouver area.
- Although the company has been able to pursue cheap acquisitions in the past, there is no guarantee they would be able to continue to do so going forward.

We maintain our risk rating of 3.

APPENDIX

INCOME STATEMENTS					
(in C\$) - YE Aug 31st					
	2017A	2018A	2019A	2020F	2021F
REVENUES					
Educational	37,710,897	49,484,021	52,061,000	46,293,841	50,722,217
Rental	8,623,826	10,609,929	13,035,000	11,185,300	15,435,000
Commissions + Referral Fees	852,172	903,903	692,000	276,800	304,480
Design and advertising IRIX	998,824	1,096,658	862,000	862,000	905,100
Development fees	5,372,144	12,805,410	4,347,000	8,259,300	8,259,300
Total Revenues	53,557,863	74,899,921	70,997,000	66,877,241	75,626,097
DIRECT COSTS					
Educational	17,636,745	22,709,962	22,986,000	20,294,968	22,619,958
Commissions + Referral Fees	497,650	675,663	455,000	182,688	200,957
Rental	5,766,940	5,271,325	7,090,000	5,033,385	6,945,750
Design and advertising IRIX	240,809	249,835	192,000	215,500	226,275
Total Direct Costs	24,142,144	28,906,785	30,723,000	25,726,541	29,992,940
Gross Profit	29,415,719	45,993,136	40,274,000	41,150,701	45,633,157
EXPENSES					
Stock-based compensation	194,365	262,718	251,000	236,435	267,366
General and administrative	24,692,742	32,395,165	34,030,000	29,946,400	30,695,060
Website Development cost					
Business development costs/others					
Total Expenses	24,887,107	32,657,883	34,281,000	30,182,835	30,962,426
EBITDA	4,528,612	13,335,253	5,993,000	10,967,865	14,670,732
Amortization	1,190,329	1,811,415	2,215,000	4,004,400	3,848,537
EBIT	3,338,283	11,523,838	3,778,000	6,963,465	10,822,195
Interest / Finance Cost	(2,640,046)	(5,635,740)	(6,594,000)	(8,487,914)	(9,168,795)
Interest Income	1,781,861	2,070,874	620,000		
Foreign exchange (loss) gain	(40,288)	16,987	(100,000)		
Loss on disposal of property, plant and equipment	34,771	-	-	-	-
EBT	2,474,581	7,975,959	(2,296,000)	(1,524,449)	1,653,400
Loss of investment in associates	(1,268,036)	(669,951)			
Gain on Change of Property FV	10,470,322	43,497,343	20,116,000	10,845,171	13,556,464
Discontinued operations / others	(1,501,751)	1,550,489	(1,733,000)	-	-
Net Profit (Loss) before tax	10,175,116	52,353,840	16,087,000	9,320,722	15,209,864
Taxes	1,891,082	6,982,675	1,155,000	(304,890)	330,680
Net Profit (Loss)	8,284,034	45,371,165	14,932,000	9,625,612	14,879,184
EPS	0.11	0.58	0.20	0.13	0.19
Non-controlling interests	(5,896,938)	(25,428,909)	(12,318,000)	(6,437,128)	(9,555,556)
Net Profit (Loss) to CIBT	2,387,096	19,942,256	2,614,000	3,188,484	5,323,628
EPS	0.03	0.25	0.03	0.04	0.07

CONSOLIDATED BALANCE SHEETS

(in C\$) - YE Aug 31st

	2017A	2018A	2019A	2020F	2021F
ASSETS					
CURRENT					
Cash and short-term investments	7,129,892	33,495,798	15,462,000	12,712,658	16,789,991
Accounts receivable	9,271,204	18,327,693	21,319,000	19,037,672	21,528,173
Prepays and other	1,285,875	1,729,965	2,809,000	1,465,139	1,656,808
Others	930,149	862,746	10,220,000	10,220,000	10,220,000
Inventory	584,392	751,742	714,000	714,000	714,000
Total Current Assets	19,201,512	55,167,944	50,524,000	44,149,469	50,908,972
Due from Related Parties	2,776,320				
Property and Equipment / Right of Use Assets	4,142,299	62,277,524	61,416,000	60,690,600	60,106,971
Intangible Assets	13,178,800	9,457,443	8,661,000	6,658,800	4,734,531
Goodwill	7,056,274	10,356,253	9,056,000	9,056,000	9,056,000
Future Income Tax	2,046,307	3,867,389	1,650,000	1,650,000	1,650,000
Deferred Cur. Dev. Costs & Other Assets	1,854,124			-	-
Investment property	101,010,000	144,670,000	201,450,000	261,961,838	325,184,969
Refundable deposits + Investment	15,416,361	55,040,079	56,913,000	56,913,000	56,913,000
Assets held for Sale/Cash held in trust	-	-	-	-	-
Total Assets	166,681,997	340,836,632	389,670,000	441,079,707	508,554,443
LIABILITIES					
CURRENT					
Accounts payable and accrued liabilities	7,454,305	16,596,566	16,248,000	8,363,209	9,750,135
Deferred revenue	18,452,047	23,572,827	23,177,000	24,929,450	28,190,712
Lease obligation + provision	193,933		-	-	-
Income Tax Payable	273,212	5,069,250	178,000	178,000	178,000
Current portion of the long-term debt	33,362,364	28,553,370	42,089,000	42,089,000	42,089,000
Total Current Liabilities	59,735,861	73,792,013	81,692,000	75,559,660	80,207,847
Lease Obligation			-	-	-
Long-term Debt	26,047,512	87,051,236	102,062,000	141,795,333	181,528,667
Future Income Tax Liabilities	4,085,456	8,341,202	11,762,000	11,762,000	11,762,000
SHAREHOLDERS EQUITY					
Share capital	52,190,322	52,039,965	50,786,000	50,786,000	50,786,000
Contributed surplus	5,741,510	5,692,765	6,571,000	6,807,435	7,074,801
Accumulated Comprehensive loss	243,766	248,034	199,000	199,000	199,000
Non-controlling interests	47,280,963	122,210,962	142,706,000	157,089,795	174,592,018
Deficit	(28,643,393)	(8,539,545)	(6,108,000)	(2,919,516)	2,404,112
Total shareholders' equity (deficiency)	76,813,168	171,652,181	194,154,000	211,962,714	235,055,930
Total Liabilities and Shareholders Equity	166,681,997	340,836,632	389,670,000	441,079,707	508,554,443

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in C\$) - YE Aug 31st

	2017A	2018A	2019A	2020F	2021F
CASH FLOWS FROM OPERATING ACTIVITIES					
Net Profit (Loss) for the year	8,284,034	45,371,165	14,932,000	9,625,612	14,879,184
Adjusted for items not involving cash:					
- amortization	1,944,159	3,377,604	3,667,000	4,004,400	3,848,537
- stock-based compensation	194,365	262,718	251,000	236,435	267,366
- loss on disposal of property, plant and equipment	(144,133)	(2,295,672)	51,000	-	-
-gain from changes in ownership investment interests	1,268,036	669,951	-	-	-
-gain on fair value changes in investment properties	(10,470,322)	(43,497,343)	(20,116,000)	(10,845,171)	(13,556,464)
-finance fees	766,267	1,039,765	663,000	-	-
-future/current income tax provision/others	2,046,497	1,539,127	7,920,000	-	-
Funds From Operations	3,888,903	6,467,315	7,368,000	3,021,276	5,438,622
Net changes in non-cash working capital items	7,108,759	13,401,605	(17,130,000)	(2,507,151)	1,966,017
Discontinued Operations					
NET CASH USED IN OPERATING ACTIVITIES	10,997,662	19,868,920	(9,762,000)	514,125	7,404,639
CASH FLOWS FROM INVESTING ACTIVITIES					
PP&E	(1,782,241)	(2,538,431)	(1,216,000)	(1,276,800)	(1,340,640)
Investment Properties	(35,148,261)	8,967,827	1,274,000	-	-
Deposits on real estate properties	(500,000)	(52,000,000)	(12,150,000)	-	-
Acquisitions	(8,297,361)	(15,834,974)	(2,329,000)	(49,666,667)	(49,666,667)
Disposal of business assets	(169,892)	-	-	-	-
Restricted cash	(101,507)	(42)	-	-	-
NET CASH USED IN INVESTING ACTIVITIES	(45,999,262)	(61,405,620)	(14,421,000)	(50,943,467)	(51,007,307)
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash from equity and debt issuances	5,096,956	374,048	52,000	-	-
Private Placement Subscription	-	-	-	-	-
Acquisition of the Company's shares into treasury, net	(661,512)	(689,148)	(1,832,000)	-	-
Advances (to) from related parties	(2,855,956)	(11,797,050)	(869,000)	-	-
Lease obligation repayments	(137,259)	-	-	-	-
Non controlling interest capital contribution	10,510,050	49,349,137	8,758,000	7,946,667	7,946,667
Loan principal payments	(899,738)	-	-	-	-
Long-term debt advances	29,476,661	33,978,413	4,312,000	39,733,333	39,733,333
Funds from loan advances	(2,478,747)	-	-	-	-
Deferred finance fees	(521,927)	(3,314,231)	(4,214,000)	-	-
NET CASH FROM FINANCING ACTIVITIES	37,528,528	67,901,169	6,207,000	47,680,000	47,680,000
Foreign Exchange / Others	11,486	1,395	(57,000)	-	-
INCREASE IN CASH FOR THE YEAR	2,538,414	26,365,864	(18,033,000)	(2,749,342)	4,077,332
CASH, BEGINNING OF THE YEAR	4,341,970	6,880,384	33,246,248	15,462,000	12,712,658
CASH, END OF THE YEAR	6,880,384	33,246,248	15,213,248	12,712,658	16,789,991

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues and may rely on external funding. These stocks are considered highly speculative.

Disclaimers and Disclosure

The opinions expressed in this report are the true opinions of the analyst about this company and industry. Any "forward looking statements" are our best estimates and opinions based upon information that is publicly available and that we believe to be correct, but we have not independently verified with respect to truth or correctness. There is no guarantee that our forecasts will materialize. Actual results will likely vary. The analyst and Fundamental Research Corp. "FRC" does not own any shares of the subject company, does not make a market or offer shares for sale of the subject company, and does not have any investment banking business with the subject company. Fees were paid by MBA to FRC. The purpose of the fee is to subsidize the high costs of research and monitoring. FRC takes steps to ensure independence including setting fees in advance and utilizing analysts who must abide by CFA Institute Code of Ethics and Standards of Professional Conduct. Additionally, analysts may not trade in any security under coverage. Our full editorial control of all research, timing of release of the reports, and release of liability for negative reports are protected contractually. To further ensure independence, MBA has agreed to a minimum coverage term including an initial report and three updates. Coverage cannot be unilaterally terminated. Distribution procedure: our reports are distributed first to our web-based subscribers on the date shown on this report then made available to delayed access users through various other channels for a limited time.

The distribution of FRC's ratings are as follows: BUY (67%), HOLD (8%), SELL / SUSPEND (25%).

To subscribe for real-time access to research, visit <https://www.researchfrc.com/website/subscribe/> for subscription options.

This report contains "forward looking" statements. Forward-looking statements regarding the Company and/or stock's performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the Company's products/services in the marketplace; acceptance in the marketplace of the Company's new product lines/services; competitive factors; new product/service introductions by others; technological changes; dependence on suppliers; systematic market risks and other risks discussed in the Company's periodic report filings, including interim reports, annual reports, and annual information forms filed with the various securities regulators. By making these forward-looking statements, Fundamental Research Corp. and the analyst/author of this report undertakes no obligation to update these statements for revisions or changes after the date of this report. A report initiating coverage will most often be updated quarterly while a report issuing a rating may have no further or less frequent updates because the subject company is likely to be in earlier stages where nothing material may occur quarter to quarter.

Fundamental Research Corp DOES NOT MAKE ANY WARRANTIES, EXPRESSED OR IMPLIED, AS TO RESULTS TO BE OBTAINED FROM USING THIS INFORMATION AND MAKES NO EXPRESS OR IMPLIED WARRANTIES OR FITNESS FOR A PARTICULAR USE. ANYONE USING THIS REPORT ASSUMES FULL RESPONSIBILITY FOR WHATEVER RESULTS THEY OBTAIN FROM WHATEVER USE THE INFORMATION WAS PUT TO. ALWAYS TALK TO YOUR FINANCIAL ADVISOR BEFORE YOU INVEST. WHETHER A STOCK SHOULD BE INCLUDED IN A PORTFOLIO DEPENDS ON ONE'S RISK TOLERANCE, OBJECTIVES, SITUATION, RETURN ON OTHER ASSETS, ETC. ONLY YOUR INVESTMENT ADVISOR WHO KNOWS YOUR UNIQUE CIRCUMSTANCES CAN MAKE A PROPER RECOMMENDATION AS TO THE MERIT OF ANY PARTICULAR SECURITY FOR INCLUSION IN YOUR PORTFOLIO. This REPORT is solely for informative purposes and is not a solicitation or an offer to buy or sell any security. It is not intended as being a complete description of the company, industry, securities or developments referred to in the material. Any forecasts contained in this report were independently prepared unless otherwise stated and HAVE NOT BEEN endorsed by the Management of the company which is the subject of this report. Additional information is available upon request. THIS REPORT IS COPYRIGHT. YOU MAY NOT REDISTRIBUTE THIS REPORT WITHOUT OUR PERMISSION. Please give proper credit, including citing Fundamental Research Corp and/or the analyst, when quoting information from this report.

The information contained in this report is intended to be viewed only in jurisdictions where it may be legally viewed and is not intended for use by any person or entity in any jurisdiction where such use would be contrary to local regulations or which would require any registration requirement within such jurisdiction.