

CIBT Education Group Inc. (TSX: MBA)

Spin-off of Real Estate Business Presents Opportunity to Unlock Value

BUY

Current Price: \$0.70

Fair Value: C\$1.21

Risk: 3

Sector / Industry: Education Services / Student Housing

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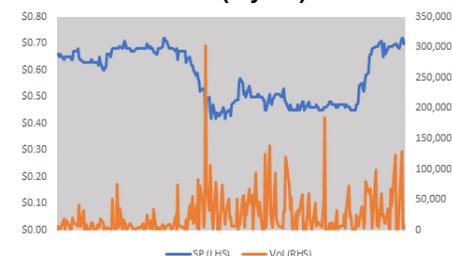
Highlights

- CIBT announced its intent to spin-off its real estate business, valued at \$580 million by third-party evaluators, into a publicly listed entity on an exchange in the U.S. We believe this move will not only attract global investors, but also allow CIBT to monetize its interest in the real estate division.
- In Q3-FY2020 (quarter ended May 2020), revenue decreased 15% YoY to \$13.7 million, and was below our expectations. While CIBT's education business beat our estimate, rental revenue and revenue from the language school business was well below our expectations due to international travel restrictions.
- Rental revenue (13% of revenue) declined 41% YoY in Q3.
- The education business (accounting for 82% of total revenue) was down 9.7% YoY. The language school business (9.1% of revenue) was the hardest hit, down 54%, due to fewer international student enrollment due to COVID-19. CIBT China fared much better, declining only 9%, while domestic education (SSCC, 68% of revenue) showed strength, growing 4% YoY.
- EBITDA was \$1.08 million in Q3-FY2020, up 35.3% YoY, and \$5.79 million in 9M-FY2020, up 116% YoY, due to cost-cutting measures and reclassification of lease expense to finance expenses. Note that the company's reported figures are slightly different from our calculations.
- **We are lowering our FY2020 revenue forecast from \$67 million to \$65 million, and our net profit forecast from \$3.2 million to \$2.8 million (EPS: \$0.04).**

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Head of Research

Will Chien, BASc
Analyst

Price and Volume (1-year)



| | YTD | 12M |
|-----|-----|-----|
| MBA | 3% | 6% |
| TSX | -3% | 1% |

Company Data

| | |
|-----------------|-----------------|
| 52 Week Range | \$0.40 - \$0.72 |
| Shares O/S | 74,543,540 |
| Market Cap. | \$52.18 million |
| Yield (forward) | N/A |
| P/E (forward) | 18x |
| P/B | 0.9x |

| Key Financial Data (in C\$); YE - Aug 31 | 2017 | 2018 | 2019 | 2020E | 2021E |
|---|------------|------------|------------|------------|------------|
| Revenues | 53,557,863 | 74,899,921 | 70,997,000 | 65,143,822 | 66,370,326 |
| EBITDA | 4,528,612 | 13,335,253 | 5,993,000 | 8,596,721 | 8,603,505 |
| EBITDA Margin | 8.5% | 17.8% | 8.4% | 13.2% | 13.0% |
| Net Income | 8,284,034 | 45,371,165 | 14,932,000 | 4,899,890 | 8,507,138 |
| EPS (Basic) | 0.11 | 0.58 | 0.20 | 0.06 | 0.11 |
| Debt to Capital | 43.6% | 40.2% | 42.6% | 47.0% | 50.0% |
| ROE | 8.9% | 50.5% | 5.2% | 5.4% | 8.6% |

*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.

SSCC delivered 4% YoY revenue growth

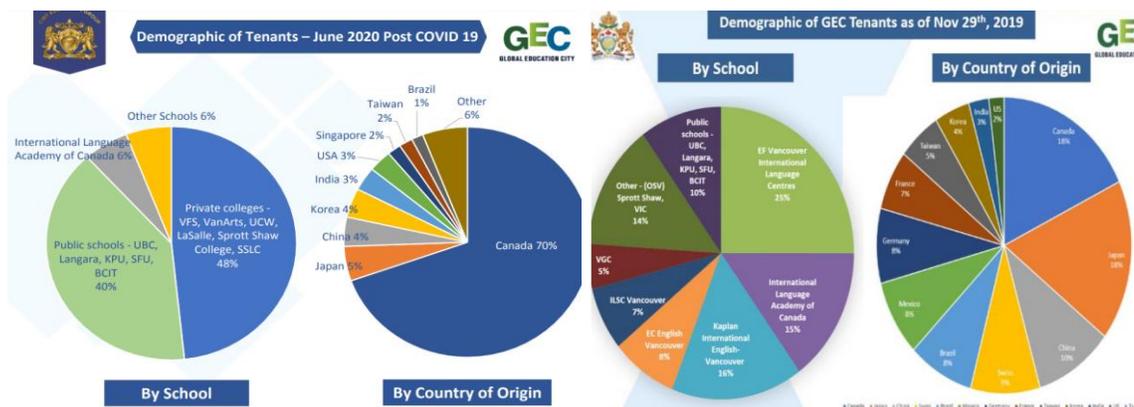
COVID-19 Update

The domestic side of the education business showed strong resilience. All deliveries of educational content switched to online and enrollment grew in the third quarter. **Sprott Shaw College delivered 4% YoY growth in revenue (68% of total revenue). Students' willingness to invest in education is typically counter-cyclical and tuition expenses can be financed with government student loans. Thus, management continues to expect minimal impact to its SSCC business. We agree with management that the pandemic should result in a deferral in revenue rather than a loss for Sprott Shaw College.** CIBT China (6% of revenue) declined only 9% YoY, as outbreak in the region is relatively well-contained. The company reported rising enrollment as China continues to return to normalcy.

COVID-19 has not been kind to the international side of the business. Language school students seek environments that offer in-person interactions with native speakers. However, travel restrictions and social distancing measures made it difficult to do so. Revenue from language schools dropped by 54% YoY in the third quarter as registrations decreased significantly.

The decline in international students had an even more profound impact on the rental business. Occupancy at student housings dropped as many international students returned home. We can see from the tenant composition below that Canadian students now dwarf any other international student body, with 70% at the end of June 2020, compared to just 18% at the end of FY2019. Language school tenants that accounted for 90% of all occupants in FY2019, dwindled to below 30%.

Tenant Composition: Q3-F2020 vs FY2019



Source: Company Presentation

Below is the company's performance by segment in Q3-2020:

| YE Aug 31 st | Q3-2018 | Q3-2019 | Q3-2020 | YOY | 2018 (9 mo) | 2019 (9 mo) | 2020 (9 mo) | YOY |
|------------------------------------|-------------------|-------------------|-------------------|----------------|-------------------|-------------------|-------------------|----------------|
| SSC + Others | | | | | | | | |
| Revenues | 11,148,491 | 11,603,033 | 10,478,000 | -9.70% | 33,169,300 | 34,492,058 | 34,285,000 | -0.60% |
| Gross Margins | 56.59% | 56.06% | 58.47% | | 57.02% | 57.21% | 55.90% | |
| CIBT | | | | | | | | |
| Revenues | 469,310 | 835,558 | 758,000 | -9.28% | 1,791,567 | 2,321,362 | 2,213,000 | -4.67% |
| Gross Margins | 35.68% | 38.00% | 48.00% | | 49.31% | 44.00% | 43.00% | |
| IRIX | | | | | | | | |
| Revenues | 289,378 | 236,279 | 89,000 | -62.33% | 839,779 | 697,008 | 611,000 | -12.34% |
| Gross Margins | 80.27% | 82.00% | 55.00% | | 73.77% | 79.00% | 78.00% | |
| Commissions + Referral Fees | | | | | | | | |
| Revenues | 199,921 | 145,573 | 196,000 | 34.64% | 679,826 | 569,610 | 362,000 | -36.45% |
| Gross Margins | 27.18% | 57.00% | 78.00% | | 34.64% | 47.00% | 72.00% | |
| Global Education City | | | | | | | | |
| Revenues (rental) | 2,708,045 | 2,936,529 | 1,745,000 | -40.58% | 6,552,381 | 8,525,684 | 8,153,000 | -4.37% |
| Gross Margins | 58.61% | 40.00% | 38.00% | | 27.55% | 39.00% | 53.00% | |
| Global Education City | | | | | | | | |
| Development fees | 8,019,562 | 381,062 | 386,000 | 1.30% | 11,662,382 | 2,152,762 | 939,000 | -56.38% |
| Gross Margins | | | | | | | | |
| Overall Revenues | 22,834,707 | 16,138,034 | 13,652,000 | -15.40% | 54,695,235 | 48,758,484 | 46,563,000 | -10.85% |
| Overall Gross Margins | 71.7% | 53.6% | 56.9% | | 62.3% | 55.3% | 57.3% | |

Source: Company Data

Margin increased by 2.4ppt

Continues to secure equity investments despite COVID-19

- **Education** revenue declined 9.7% YoY, but was stronger than our expectations, as mentioned on page 2. Gross margin increased by 2.4 ppt (percentage points), thanks to strong domestic business performance, partially offset by weakness in the language school business.
- **Rental** revenue was down 41% YoY (well below our estimate) and gross margin was down by 2 ppt. The reduction in gross margin would have been worse if certain direct costs were not reclassified as indirect costs.
- **Development fees** stayed flat for the quarter, and were below our estimate. CIBT continues to secure equity investments for property development despite COVID-19. In September, the company's subsidiaries received \$4.9 million for the GEC Oakridge project, and \$13.1 million for two new rental properties.

Margin Analysis

| Margin Summary | Q3-2018 | Q3-2019 | Q3-2020 | 2018 (9 mo) | 2019 (9 mo) | 2020 (9 mo) |
|----------------|---------|---------|---------|-------------|-------------|-------------|
| Gross | 71.68% | 53.64% | 56.90% | 62.3% | 55.3% | 57.3% |
| EBITDA | 36.1% | 4.9% | 7.9% | 19.8% | 5.5% | 12.4% |
| EBIT | 34.0% | 1.5% | -0.6% | 17.5% | 2.2% | 5.4% |
| EBT | 26.3% | -4.3% | -6.0% | 11.1% | -6.4% | -5.0% |
| Net | 34.9% | 1.8% | 8.1% | 30.4% | 11.7% | 11.9% |

Source: Company Data

Q3-FY2020 EBITDA was \$1.08 million, up 35.5% YoY, mainly due to the company's cost-cutting measures (primarily advertising and professional fees) and reallocation of certain rent expense to depreciation expense.

Net income in Q3-FY2020 was \$1.53 million (EPS: \$0.02), up 276%, mainly due to a \$2.18 million gain on fair value of properties.

The company's nine-month operating cash flow came in at \$0.86 million, up from -\$0.21 million from the previous year. Cash outflows from investing were mainly for the

purchase of GEC Oakridge and other property development costs.

| Summary of Cash Flows | 2018 (9M) | 2019 (9M) | 2020 (9M) |
|--------------------------------------|-----------------|----------------|-----------------|
| Operating | \$19.51 | -\$0.21 | \$0.86 |
| Investing | -\$78.75 | -\$8.70 | -\$33.18 |
| Financing | \$62.83 | -\$1.12 | \$26.29 |
| Effects of Exchange Rate | \$0.10 | \$0.03 | \$0.06 |
| Net | \$3.68 | -\$9.99 | -\$5.96 |
| Free Cash Flows to Firm (FCF) | -\$59.24 | -\$8.91 | -\$31.65 |

Source: Company Data

At the end of Q3-FY2020, CIBT's cash balance decreased to \$9.5 million and debt/capital ratio came in at 50.38% (slightly up QoQ), but still below the real estate industry average of 68.7%.

| Liquidity & Capital Structure (\$ - YE Aug 31st) | 2017A | 2018A | 2019A | Q1-2020 | Q2-2020 | Q3-2020 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| Cash + Restricted Cash | \$7,129,892 | \$33,495,798 | \$15,462,000 | \$17,473,000 | \$12,080,000 | \$9,505,000 |
| Working Capital | -\$40,534,349 | -\$18,624,069 | -\$31,168,000 | -\$62,827,000 | -\$73,081,000 | -\$88,853,000 |
| Current Ratio | 0.32 | 0.75 | 0.62 | 0.46 | 0.41 | 0.34 |
| Debt/Capital | 43.61% | 40.24% | 42.61% | 43.48% | 50.20% | 50.38% |
| EBIT Interest Coverage | 1.3 | 2.0 | 0.6 | 0.9 | 0.3 | 0.2 |

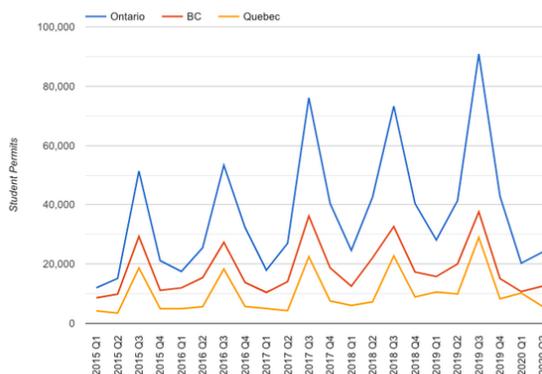
Source: Company Data

Market Outlook

Canada's travel ban stipulates **those who received their study permits after March 18, 2020 would not be allowed to enter Canada until restrictions are lifted.** The effect certainly showed in the government's study permit holder statistics, where it showed 54% YoY fewer permit holders in post-secondary institutions in B.C. in June.

Canadian Study Permits Issued By Province

The number of study permits issued to international students by quarter, in selected provinces.



Source: Government of Canada, Better Dwelling.

Source: Better Dwelling

We believe the trend has not reversed, judging by the following news:

- September 2020 – CBC reported that **school boards in Toronto saw a decrease in international student enrollment of about 50% YoY for the fall semester.**
- September 2020 – the **University of Regina saw a more than 50% YoY decrease in new international student enrollments for the fall semester.**
- August 2020 – B.C. Business reported that **University Canada West (a private school), based in downtown Vancouver, with 90% of its students from abroad, expects to lose 25-30% of students for the spring term, and new students will be down 50%.**
- August 2020 – Tricity News reported that the Coquitlam school district is expecting at least a 30% drop in student count for the fall semester due to foreign entry restrictions.
- August 2020 – USA Today reported that Columbia University expects a 30% to 40% decline in international students in the U.S in 2020.

In July 2020, the Canadian government initiated a conditional student visa approval process to allow international students to continue their studies online and count that time towards their post-graduation work permit. Prior to the initiative, post-graduation permits could only be granted to graduates who have spent at least eight months in Canada as a full-time student. **We expect this to mitigate enrollment of existing students, but will not alleviate pressure on CIBT’s rental business.**

With rising risk of a second wave, and the lack of a proven vaccine, we believe international travel restrictions will impact CIBT’s business in FY2021. On a positive note, on October 5, 2020, the Canadian government announced that they will allow international students to enter, beginning October 20, 2020, if their institution has an approved COVID-19 readiness plan. We should see a small improvement in international student enrolment in the next semester.

We expect the rental business to be hit harder than the education business. Rentals.ca reported that Vancouver condos and apartments listed on its website saw a 7.4% YoY drop in rent per-square-foot in August 2020. PadMapper reported a 9.1% drop in 1-bedroom rent, and a 14% drop in 2-bedroom rent for the Vancouver area in August 2020.

Average Rent & Average Rent Per-Square-Foot, Condo Apartments in Select Canadian Municipalities, August 2019 to August 2020



Source: Rentals.ca

September 2020 Canadian Rent Report

| Pos. | +/- | City | 1 Bedroom | | | 2 Bedrooms | | |
|------|-----|-----------|-----------|-------|--------|------------|-------|--------|
| | | | Price | M/M % | Y/Y % | Price | M/M % | Y/Y % |
| 1 | 0 | Toronto | \$2,070 | -1.4% | -10.0% | \$2,630 | -0.8% | -12.0% |
| 2 | 0 | Vancouver | \$2,000 | -2.9% | -9.1% | \$2,750 | -1.8% | -14.1% |
| 3 | 0 | Burnaby | \$1,700 | -0.6% | 3.0% | \$2,290 | -0.4% | 0.9% |
| 4 | 1 | Victoria | \$1,610 | 1.3% | 15.0% | \$1,990 | 0.0% | 15.7% |
| 5 | -1 | Barrie | \$1,560 | -4.9% | 11.4% | \$1,700 | 0.6% | 15.6% |
| 6 | 0 | Kelowna | \$1,550 | 4.7% | 15.7% | \$1,790 | 1.7% | 8.5% |
| 7 | 0 | Ottawa | \$1,500 | 3.4% | 14.5% | \$1,780 | 0.0% | 9.2% |

Source: PadMapper

Our FY2020, and FY2021, revenue projections are based on the following assumptions:

| Forecast Assumptions | Q4-F2020 (YoY) | FY2021 (YoY) |
|----------------------------------|----------------|--------------|
| Sprott Shaw College (SSCC): | 0% | 3% |
| Language schools (SSLC and VIC): | -50% | -30% |
| Rental: | -45% | -20% |
| CIBT China: | -10% | -5% |
| Development fees: | 0% | 173% |

Source: FRC

We are lowering our revenue and EPS projections for FY2020 and FY2021, as shown below:

Forecast Summary

| (in \$); YE - Aug 31 | New Forecast | | Old Forecast | | Change | |
|----------------------|--------------|--------------|--------------|--------------|---------|---------|
| | 2020E | 2021E | 2020E | 2021E | 2020E | 2021E |
| Revenue | \$65,143,822 | \$66,370,326 | \$66,877,241 | \$75,626,097 | -2.59% | -12.24% |
| EBITDA | \$8,596,721 | \$8,603,505 | \$10,967,865 | \$14,670,732 | -21.62% | -41.36% |
| Net Income | \$2,840,231 | \$4,931,179 | \$3,188,484 | \$5,323,628 | -10.92% | -7.37% |
| EPS (Basic) | \$0.04 | \$0.06 | \$0.04 | \$0.07 | -7.22% | -7.95% |

Source: FRC

Potential Real Estate Business Spin-off

CIBT's press release on August 24, 2020, revealed it is reviewing the potential spin-

Third-party appraisal valued the properties at \$580 million

off of Global Education City Holdings on a North American stock exchange. The holding company owns equity in ten GEC branded properties that are operational or under construction. A third-party appraisal valued the properties at \$580 million. We believe the spin-off will lead to greater market efficiency in valuing the company's business, and unlock shareholder value.

In June 2020, the company announced **plans to acquire two undisclosed rental properties (totaling 245 beds)** in Vancouver. The transaction is expected to close this month. Upon closing, CIBT's portfolio will have 11 projects in total with 16 buildings. CIBT has already raised \$13.1 million in equity investments for the acquisition. The following table shows a summary of CIBT's student housing projects. **We estimate the total projected cost of projects completed / under development is over \$815 million.**

Project Summary

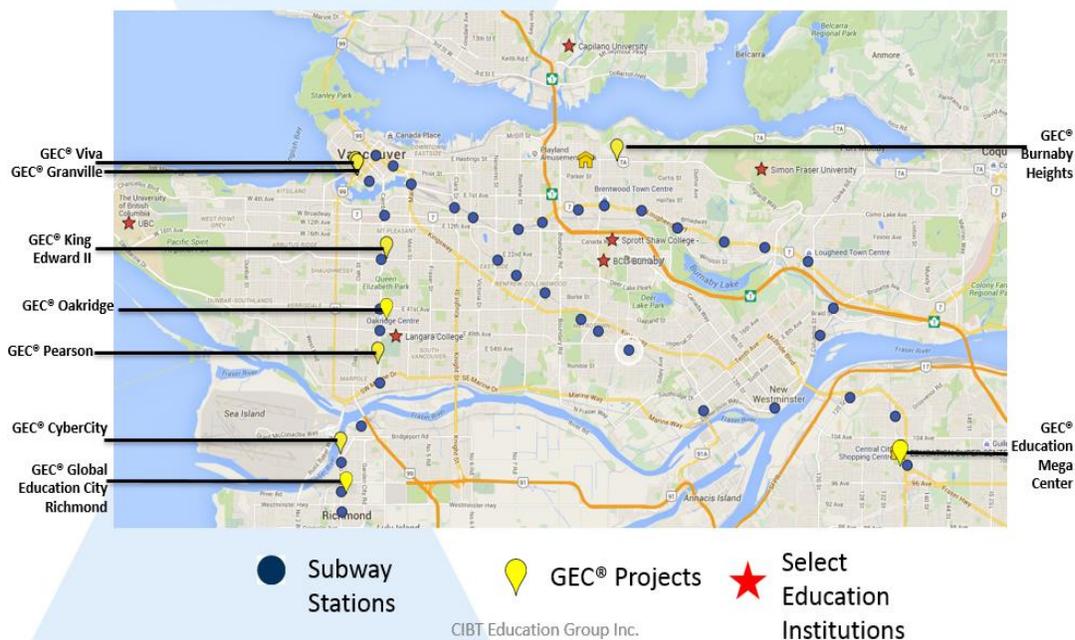
| | Viva | Pearson | Granville | Burnaby Heights | King Edward | Cyber City | Mega Center (Surrey) | Richmond | Oakridge | Marine Gateway | Total |
|---|------------------------|------------------------|------------------------|------------------------|---|--|---|--|---|--------------------------------------|-----------------|
| Status | Operating (Stabilized) | Operating (Stabilized) | Operating (Stabilized) | Operating (Stabilized) | 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) | Acquisition to close in October 2020 | |
| 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 | \$3,000,000 | \$77,180,000 |
| CIBT Ownership | | 38.5% | 46.7% | 25.0% | 23.0% | 27.0% | 21.0% | 27.5% | 20.0% | 20.0% | 25% |
| CIBT Management Fee | 8.0% | 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 | \$37,500,000 | \$855,000,000 |
| Beds | 223 | 341 | 222 | 97 | 193 | 204 | 800 | 466 | 475 | 245 | 3,266 |
| NOI Estimate (FRC est.) | \$2,135,000 | \$2,684,000 | \$4,880,000 | \$610,000 | \$1,952,000 | \$8,930,400 | \$13,664,000 | \$5,319,200 | \$5,075,200 | \$1,800,000 | \$47,049,800 |
| Cap Rate (assumption) | | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | |
| Current Valuation (FRC est.) | | \$67,100,000 | \$122,000,000 | \$15,250,000 | \$48,800,000 | \$223,260,000 | \$341,600,000 | \$132,980,000 | \$126,880,000 | \$45,000,000 | \$1,122,870,000 |
| FV of CIBT Stake (FRC Est.) | \$0 | \$5,166,700 | \$11,394,800 | \$762,500 | \$2,244,800 | \$12,056,040 | \$14,347,200 | \$7,313,000 | \$5,075,200 | \$1,800,000 | \$60,161,140 |

*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-sell certain condos in Cyber City and Mega Center; we have not modeled for this as details remain undisclosed.

Source: Company, FRC



Source: Company

Based on Colliers’s cap rate data, as shown below, we believe a cap rate of 4% is a conservative estimate for CIBT’s properties. Based on a 4% cap rate, we estimate that CIBT’s portfolio should be valued at \$1.12 billion, once all the 16 buildings are fully developed and operating. **CIBT’s equity interest in the portfolio is estimated to be \$60 million.**

Cap Rates of Multifamily Properties at the End of Q2-2020

| MULTIFAMILY | | | | | | |
|-------------|-----------|-------|----------|-------|--------------------|---|
| MARKET | HIGH-RISE | | LOW-RISE | | Q3 2020 PREDICTION | |
| CITY | LOW | HIGH | LOW | HIGH | H | L |
| Vancouver | 2.75% | 3.50% | 2.75% | 4.25% | ↔ | ↔ |
| Calgary | 4.00% | 4.75% | 4.25% | 5.25% | ↔ | ↔ |
| Edmonton | 3.75% | 5.00% | 5.00% | 6.25% | ▲ | ▲ |
| Toronto | 3.50% | 4.50% | 3.00% | 4.00% | ↔ | ↔ |
| Ottawa | 4.25% | 4.75% | 4.25% | 5.25% | ↔ | ↔ |
| Montreal | 3.00% | 4.25% | 4.00% | 5.00% | ↔ | ↔ |
| Winnipeg | 5.00% | 6.00% | 5.00% | 6.00% | ↔ | ↔ |
| Halifax | 4.50% | 4.85% | 4.50% | 5.00% | ↔ | ↔ |
| Victoria | 4.00% | 4.25% | 4.25% | 4.50% | ↔ | ↔ |

Source: Colliers International Canada

Valuation

Our revised fair value estimate is \$1.21 per share, down from our previous estimate of \$1.22 per share, due to lower near-term EPS estimates. Although the rental and language businesses were down significantly and below our expectations, they

account for a smaller portion of the overall revenue. Furthermore, the domestic education business, remains strong and accounts for a majority of overall revenue. As a result, the overall impact on EPS is minimal. **We reiterate our BUY rating, and adjust our fair value to \$1.21 per share.**

| | EV / Revenue | EV / EBITDA | P / B |
|--------------------------------------|--------------|--------------|-------------|
| American Campus Communities | 9.33 | 17.30 | 1.43 |
| Education Realty Trust (acquired) | 9.88 | 21.45 | 1.60 |
| Pure Multi-Family REIT LP (acquired) | 10.50 | 20.80 | 1.10 |
| Killam Apartment REIT | 13.17 | 11.01 | 1.05 |
| Morguard North American Residential | 9.00 | 18.40 | 0.50 |
| Northview Apartment REIT | 12.20 | 23.20 | 1.20 |
| Average (excl. outliers) | 10.18 | 20.23 | 1.06 |

| | Projected Annual Revenues | Projected EBITDA | Projected Book Value |
|---|---------------------------|--|---------------------------------|
| \$, millions | \$77.18 | \$38.46 | \$171.00 |
| | (FRC est.) | (based on a peer average EBITDA margin of 49.8%) | 20% of the est. cost of \$0.82B |
| Fair Value of 34% Equity (\$, millions) | \$24.76 | \$22.87 | \$43.91 |
| Average (\$, millions) | \$30.52 | | |

| Valuation | Fair Value | Fair Value per Share |
|--|----------------------|----------------------|
| Student Housing (GEC) | | |
| Net Asset Value based on a 4% cap rate and 80% debt | \$60,161,140 | \$0.81 |
| Relative Value using Comparable REITS | \$30,515,348 | \$0.41 |
| Average FV of GEC, discounted by 25% to account for development risks | \$34,003,683 | \$0.46 |
| Education Management | | |
| Discounted Cash Flow @ 10% | \$31,476,310 | \$0.69 |
| EV / Revenue @ 1.2x | \$60,407,903 | \$0.81 |
| Average | \$55,942,106 | \$0.75 |
| Fair Value Estimate | \$116,103,246 | \$1.21 |

Source: FRC

Risks

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

- The return to normalcy from COVID-19 remains uncertain.
- Competition in the private education business in Canada is high.
- Real estate development and financing risks.
- 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 | 50,220,822 | 48,376,326 |
| Rental | 8,623,826 | 10,609,929 | 13,035,000 | 10,632,950 | 8,506,360 |
| Commissions + Referral Fees | 852,172 | 903,903 | 692,000 | 471,800 | 377,440 |
| Design and advertising IRIX | 998,824 | 1,096,658 | 862,000 | 685,250 | 548,200 |
| Development fees | 5,372,144 | 12,805,410 | 4,347,000 | 3,133,000 | 8,562,000 |
| Total Revenues | 53,557,863 | 74,899,921 | 70,997,000 | 65,143,822 | 66,370,326 |
| DIRECT COSTS | | | | | |
| Educational | 17,636,745 | 22,709,962 | 22,986,000 | 21,995,270 | 22,017,342 |
| Commissions + Referral Fees | 497,650 | 675,663 | 455,000 | 130,450 | 249,110 |
| Rental | 5,766,940 | 5,271,325 | 7,090,000 | 5,364,569 | 5,529,134 |
| Design and advertising IRIX | 240,809 | 249,835 | 192,000 | 169,413 | 219,280 |
| Development fees | - | - | - | - | - |
| Total Direct Costs | 24,142,144 | 28,906,785 | 30,723,000 | 27,659,701 | 28,014,866 |
| Gross Profit | 29,415,719 | 45,993,136 | 40,274,000 | 37,484,121 | 38,355,460 |
| Consulting Income | - | - | - | - | - |
| Investment income from sale of marketable securities | - | - | - | - | - |
| Total Net revenues | 29,415,719 | 45,993,136 | 40,274,000 | 37,484,121 | 38,355,460 |
| EXPENSES | | | | | |
| Stock-based compensation | 194,365 | 262,718 | 251,000 | 185,000 | 188,483 |
| General and administrative | 24,692,742 | 32,395,165 | 34,030,000 | 28,702,400 | 29,563,472 |
| Total Expenses | 24,887,107 | 32,657,883 | 34,281,000 | 28,887,400 | 29,751,955 |
| EBITDA | 4,528,612 | 13,335,253 | 5,993,000 | 8,596,721 | 8,603,505 |
| Amortization | 1,190,329 | 1,811,415 | 2,215,000 | 4,485,000 | 4,500,000 |
| EBIT | 3,338,283 | 11,523,838 | 3,778,000 | 4,111,721 | 4,103,505 |
| Interest / Finance Cost | (2,640,046) | (5,635,740) | (6,594,000) | (7,753,400) | (8,528,740) |
| Interest and Other Income | 1,781,861 | 2,070,874 | 620,000 | 660,000 | - |
| 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) | (2,981,679) | (4,425,235) |
| 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 | 8,261,000 | 12,047,326 |
| 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 | 5,279,321 | 7,622,091 |
| Taxes | 1,891,082 | 6,982,675 | 1,155,000 | 379,430 | (885,047) |
| Net Profit (Loss) | 8,284,034 | 45,371,165 | 14,932,000 | 4,899,890 | 8,507,138 |
| EPS | 0.11 | 0.58 | 0.20 | 0.06 | 0.11 |
| Non-controlling interests | (5,896,938) | (25,428,909) | (12,318,000) | (2,059,660) | (3,575,959) |
| Net Profit (Loss) to CIBT | 2,387,096 | 19,942,256 | 2,614,000 | 2,840,231 | 4,931,179 |
| EPS | 0.03 | 0.25 | 0.03 | 0.04 | 0.06 |

| 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 | 10,789,365 | 9,531,599 |
| Cash in escrow / trust | | | | | |
| Accounts receivable | 9,271,204 | 18,327,693 | 21,319,000 | 20,089,579 | 18,893,370 |
| Prepays and other | 1,285,875 | 1,729,965 | 2,809,000 | 2,854,327 | 1,454,034 |
| 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 | 44,667,271 | 40,813,003 |
| Due from Related Parties | 2,776,320 | | | | |
| Restricted Cash | | | | | |
| Property and Equipment / Right of Use Assets | 4,142,299 | 62,277,524 | 61,416,000 | 60,450,300 | 59,540,940 |
| Intangible Assets | 13,178,800 | 9,457,443 | 8,661,000 | 6,418,500 | 4,168,500 |
| 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 | 259,377,667 | 321,091,659 |
| 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 | 438,532,738 | 493,233,102 |
| LIABILITIES | | | | | |
| CURRENT | | | | | |
| Accounts payable and accrued liabilities | 7,454,305 | 16,596,566 | 16,248,000 | 11,239,554 | 9,107,101 |
| Deferred revenue | 18,452,047 | 23,572,827 | 23,177,000 | 24,283,294 | 24,740,490 |
| 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 | 77,789,848 | 76,114,591 |
| 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 | 6,756,000 | 6,944,483 |
| Treasury shares held | - | - | - | - | - |
| 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 | 152,712,326 | 164,234,952 |
| Deficit | (28,643,393) | (8,539,545) | (6,108,000) | (3,267,769) | 1,663,410 |
| Total shareholders' equity (deficiency) | 76,813,168 | 171,652,181 | 194,154,000 | 207,185,557 | 223,827,845 |
| Total Liabilities and Shareholders Equity | 166,681,997 | 340,836,632 | 389,670,000 | 438,532,738 | 493,233,102 |

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 | 4,899,890 | 8,507,138 |
| Adjusted for items not involving cash: | | | | | |
| - amortization | 1,944,159 | 3,377,604 | 3,667,000 | 4,485,000 | 4,500,000 |
| - stock-based compensation | 194,365 | 262,718 | 251,000 | 185,000 | 188,483 |
| - 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) | (8,261,000) | (12,047,326) |
| -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 | 1,308,890 | 1,148,295 |
| Net changes in non-cash working capital items | 7,108,759 | 13,401,605 | (17,130,000) | (2,718,058) | 921,245 |
| Discontinued Operations | | | | | |
| NET CASH USED IN OPERATING ACTIVITIES | 10,997,662 | 19,868,920 | (9,762,000) | (1,409,168) | 2,069,540 |
| 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) | - | - |
| Promissory note receivable | | | | | |
| 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) | (4,672,635) | (1,257,767) |
| CASH, BEGINNING OF THE YEAR | 4,341,970 | 6,880,384 | 33,246,248 | 15,462,000 | 10,789,365 |
| CASH, END OF THE YEAR | 6,880,384 | 33,246,248 | 15,213,248 | 10,789,365 | 9,531,599 |

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.

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