Hong Kong's Public Universities

A Comparative Analysis

S&P Global Ratings

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This report does not constitute a rating action

Key Takeaways

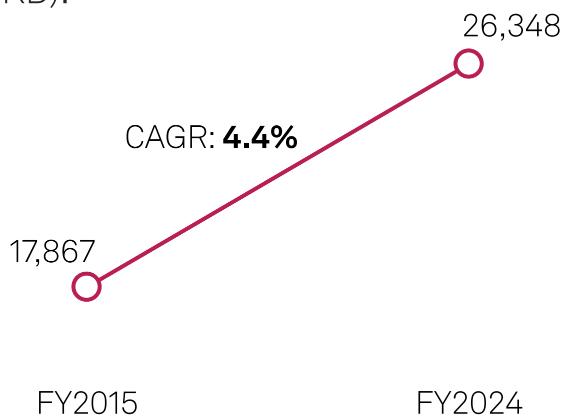
- The public university sector in Hong Kong generally displays the hallmarks of strong credit quality, with good market positions, strong financial performance, and ample financial resources.
- Market positions among the eight public universities are varied, mainly due to varying full-time equivalent (FTE) student enrollment scales and their different histories and areas of focus.
- Steady government subvention, consisting mainly of recurrent and capital grants, has been a major revenue source that meaningfully supports the universities' financial performance. This has underpinned their light historic debt burdens, which could change if borrowing appetite increases.
- Liquidity reserves are ample. With over 60% of liquidity from cash and cash equivalents as of end fiscal year 2023 (ending June 2023), their financial resources are generally sufficient even during periods of financial market swings. Investment income is volatile in nature and could occasionally lead to accounting losses in the sector, as occurred in FY2022. However, such events are overall neutral to operating margins.
- Compared with our rated peers (all in the 'AA' and 'A' categories in Australia, Canada and the UK), Hong Kong universities generally have stronger financial profiles. FTE enrollments, on the other hand, are relatively smaller in size and this somewhat weighs on their market positions.
- The likelihood of extraordinary government support would likely be differentiated according to the individual universities' roles to and linkages with the Hong Kong government (AA+/Stable/A-1+). Considerations may include but not be limited to their different international rankings, academic program offerings, and relevance to the city's development objectives.

Hong Kong's Public University Sector

5,336

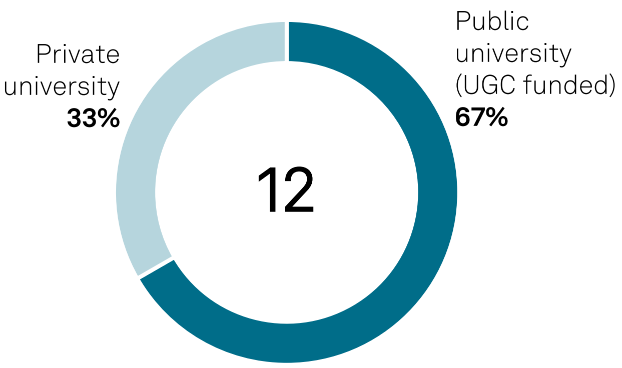
Total debt of public universities (mil. HKD, FY2023)

Total budget of subventions (mil. HKD):

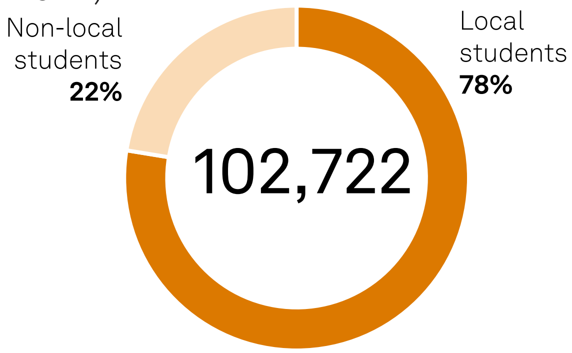


mil.--Million. CAGR--Compound annual growth rate. Source: S&P Global Ratings.

Established as early as 1911



Number of full-time equivalent students (FY2024)



Hong Kong is the only city with 5 universities in the world's top 100 under the QS World University Rankings (2024):

- **3** in Top 50
- **2** in 50-100
- **3** in Above 100

Top academic programs that are offered:

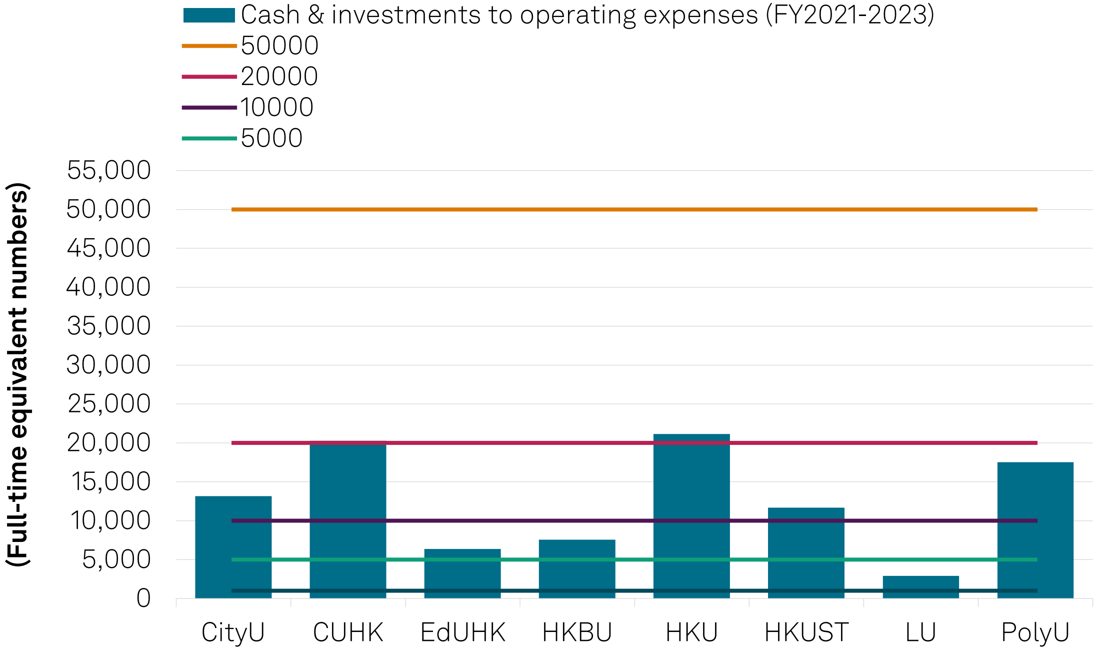
- Dentistry
- Education
- MBA

Hong Kong Public Universities Generally Have Good Market Positions

- Hong Kong's public universities generally have solid market positions, in line with most of our rated peers from Canada, Australia, and the UK. Those with larger FTE enrollments may benefit from diversification and economies of scale.
- High international rankings and strong retention rates support the sector's good market positions and help to offset their relatively smaller size.

Average enrollment size varies across the sector

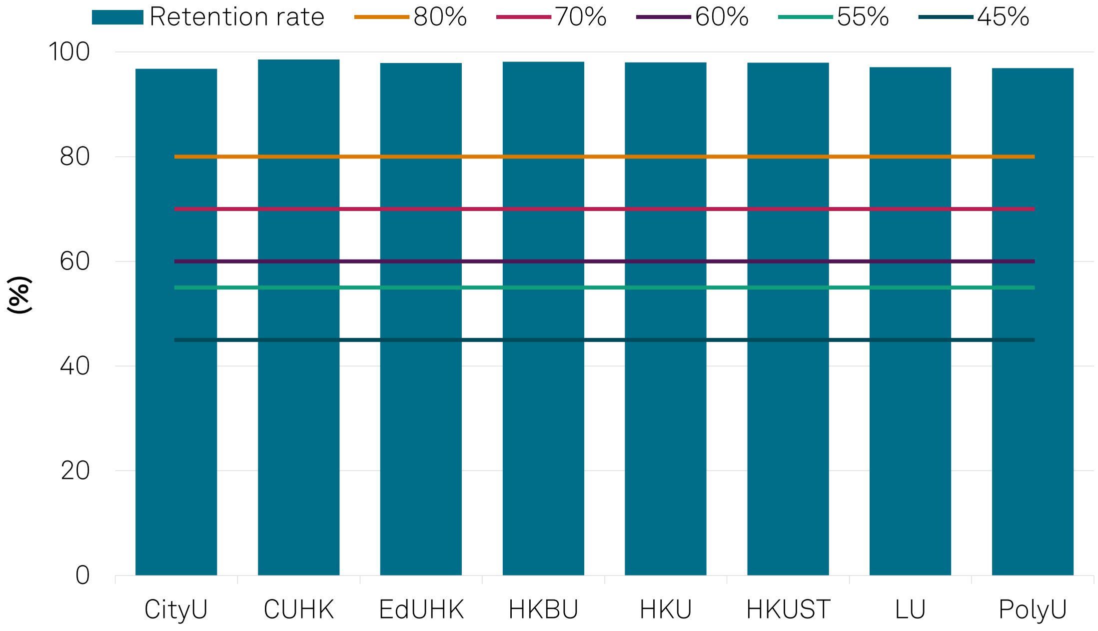
FTE enrollment (FY2022-2024 average)



Thresholds are extracted from S&P Criteria "Global Not-For-Profit Education Providers". Please refer to our glossary for a definition of terms. Sources: University Grants Committee (UGC), universities' financial reports, S&P Global Ratings.

Retention rates are all very high

FY2023



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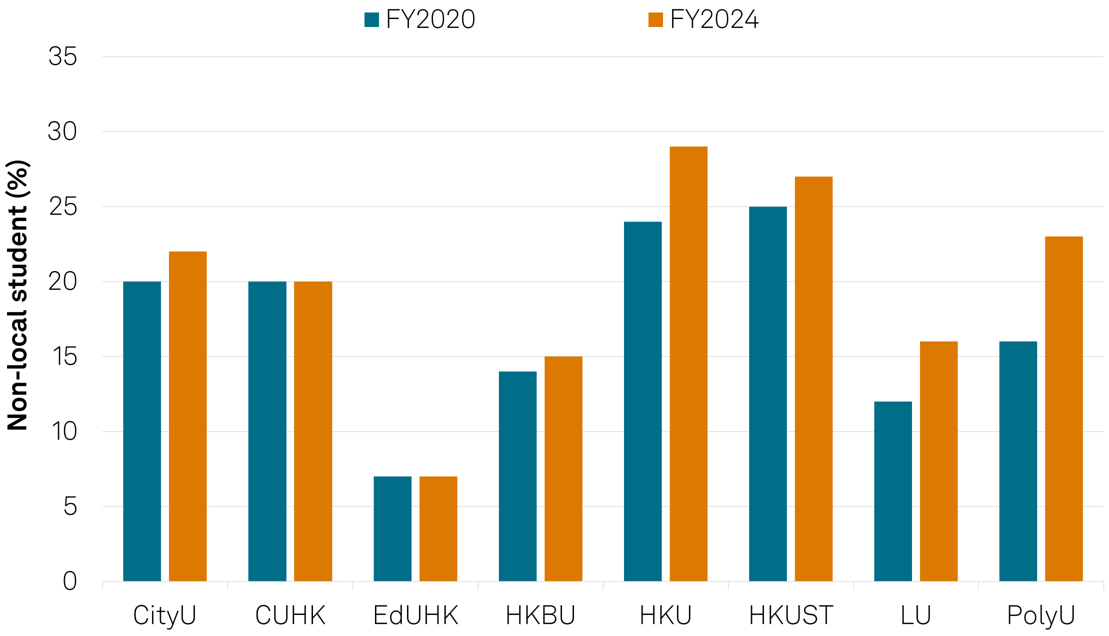
Mainland China Students A Key But Concentrated Driver Of Enrollment

- A growing pool of non-local students will benefit revenue growth, given tuition fees for this cohort were nearly 4x greater than that for local students in FY2024. This momentum is driven by students from mainland China, who already make up over 75% of non-local students. So, this concentration to a single geography offsets some of the diversification impact.
- Hong Kong non-local student proportion is similar to rated peers in Canada and the UK but lower than Australian peers.

Diversification of student enrollment steadily improves



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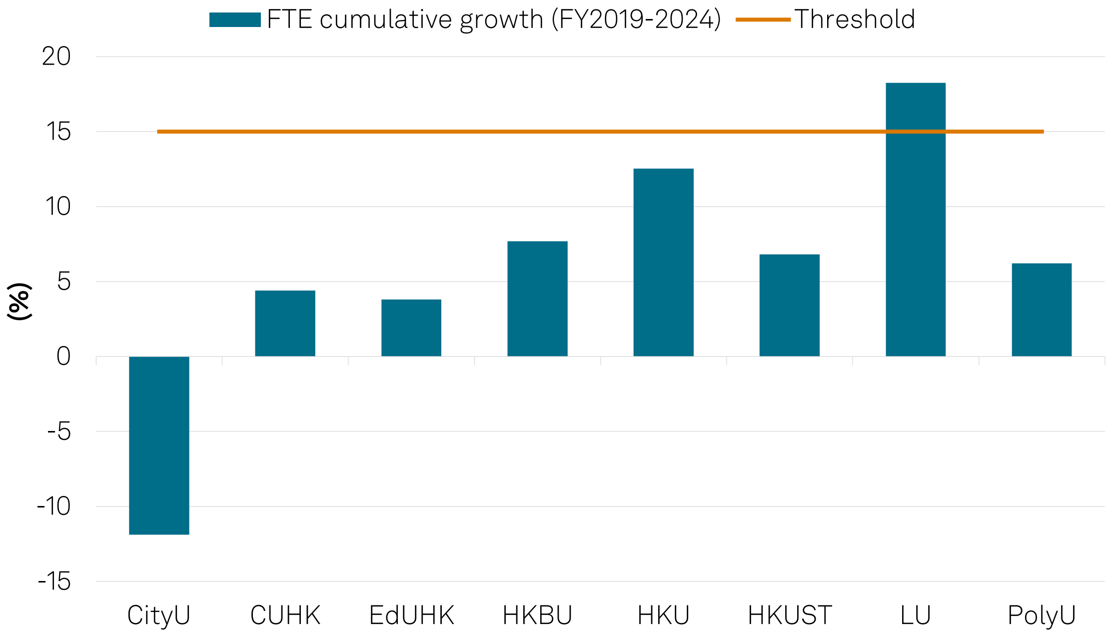
FTE enrollment generally expanded over past five years



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Good Framework Set For Management And Governance

Strategic positioning

- Hong Kong's public universities generally exhibit specific financial and operational goals with clear measures of achievement.
- Gradual improvement on QS World University Rankings signals a strengthening strategic positioning for most of HK's public universities.

Risk management

- The city's public universities are governed by their ordinances and governing councils, which are responsible for the management of financial and human resources.
- A high-profile leadership conflict at HKU raised questions on governance. However, this could be a one-time event and may not indicate governance is a sector drawback to creditworthiness.

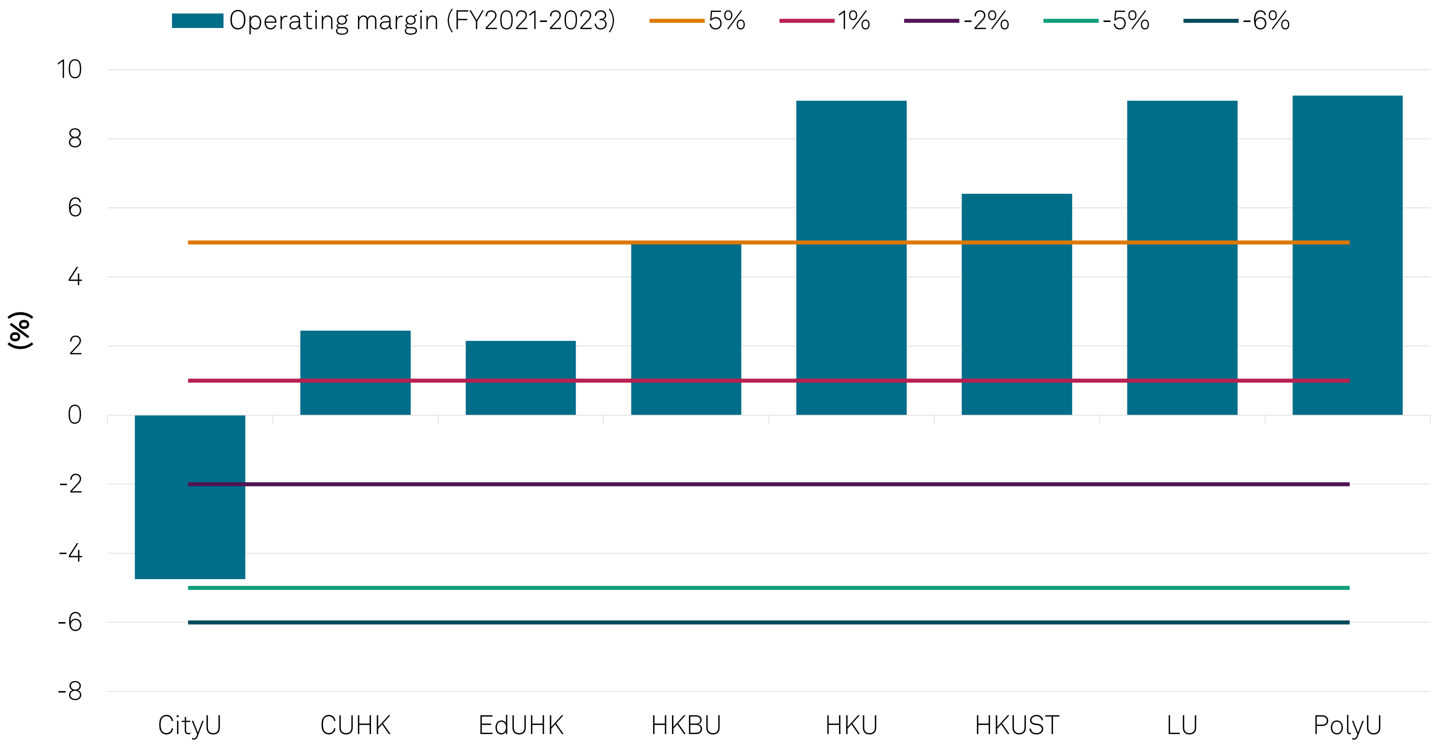
Organizational effectiveness

- The management teams generally have solid expertise and experience, with backgrounds from diverse industries.
- Hong Kong’s Chief Executive is the Chancellor of each public university and has authority to appoint members of governing councils. Such institutional design strengthens links between the government and universities.

Generally Strong Financial Performance With Some Variation

Operating margins are generally on the stronger end

Operating margin (FY2021-2023 average)



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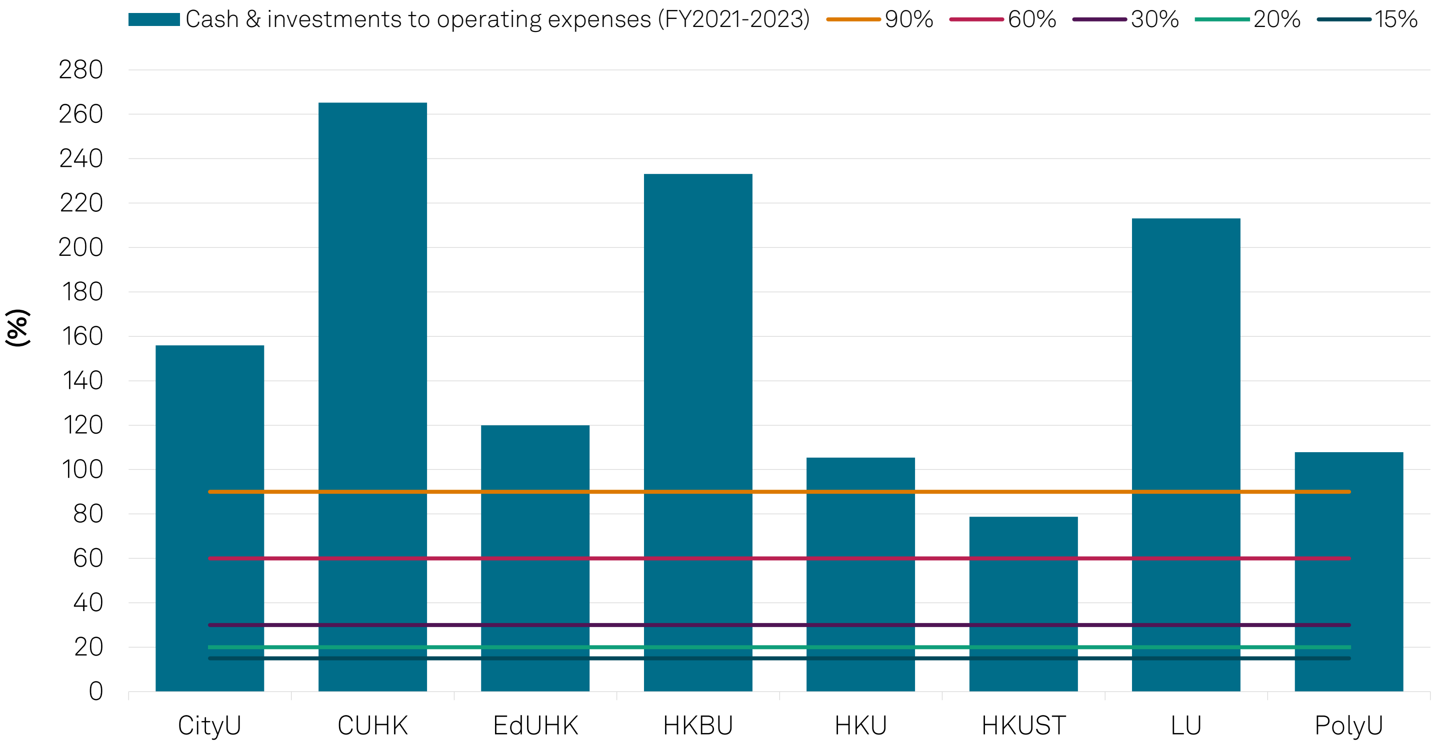
- Financial performances are generally strong compared to S&P rated peers from Canada and the UK, with operating margins largely within the 1% to 5% range.
- Performance differences largely stem from varying economies of scale and expenditure cycles.
- CityU's negative operating margin is likely due to revenue pressure from declining student enrollment and elevated spending pressure from premises construction; this could ease once completed.
- Overall operating margins should stay stable, thanks to ongoing government subventions, steadily increasing non-local students, and stable expenditures.

Ample Reserves To Cushion Financial Stress

Hong Kong's public universities generally have ample reserves

Cash & investments to operating expenses (FY2021-2023 average)



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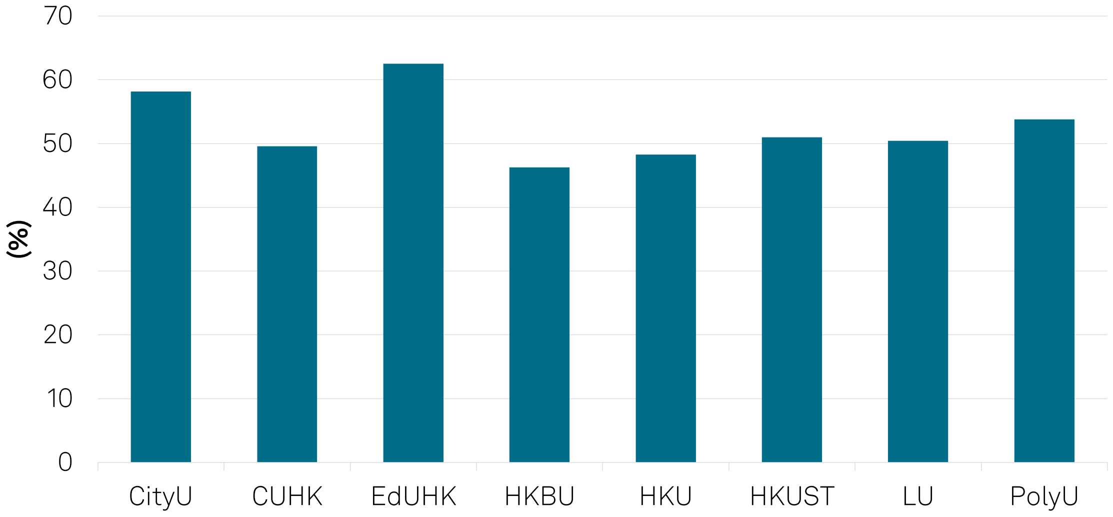
- Hong Kong's public universities mostly have stronger financial resources, relative to rated peers in Canada, Australia and the UK.
- While large swings in the financial market have caused volatility in investment value in the past two years, Hong Kong's public universities are generally well supported with over 60% liquidity from cash and cash equivalents.
- Thanks to minimal debt on hand, debt burdens are all very low, in terms of both maximum annual debt service burden and cash and investments to total debt.
- The trajectory of debt burdens could be subject to change if Hong Kong's public universities decide to use debt funding more extensively.

Government Subvention: A Major Source Of University Revenue

- Government subventions account for a significantly higher share of total revenues for Hong Kong public universities, compared with our rated peers which are normally less than one-third of total revenues.
- Such government support has a longstanding track record, representing 3%-4% of total annual government expenditure. This is likely to continue although government budget deficit could lead to adjustments. These help provide revenue stability for public universities.
- We consider ongoing support and extraordinary support separately, with the latter being more differentiated and specific to how we would assess the government's support in times of financial distress.

Subventions generally account for half of total revenues

Subvention % total revenue (FY2021-2023)



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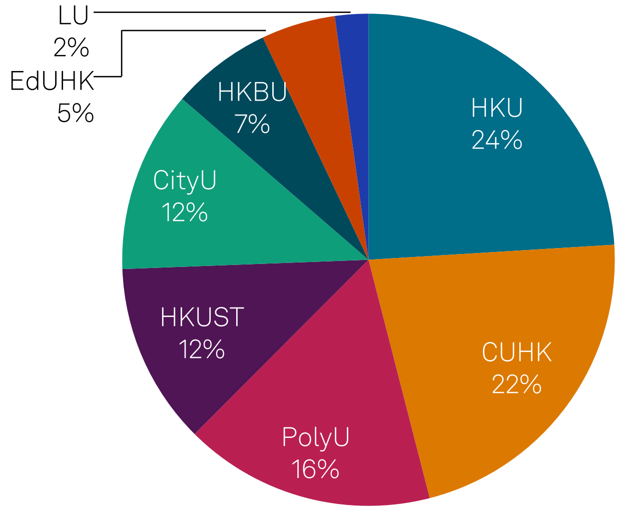
Subventions are generally related to student size

Subvention distribution among eight public universities (FY2023)



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Glossary

- Note on our data: fiscal year ended June 30. FY2024 refers to fiscal year ended June 30, 2024. Consolidated financial data is used in this report.
- Assessments are generally based on the three most recent periods of information as defined by audit period. We weight periods 45%, 35%, and 20% from most recent to least recent period, respective, i.e., FY2022-2024 average indicates 45% for FY2024, 35% for FY2023, and 20% for FY2022.
- Hong Kong's eight public universities funded under the University Grants Committee (UGC):
  - City University of Hong Kong (CityU);
  - The Chinese University of Hong Kong (CUHK);
  - The Education University of Hong Kong (EduHK);
  - Hong Kong Baptist University (HKBU);
  - The University of Hong Kong (HKU);
  - The Hong Kong University of Science and Technology (HKUST);
  - Lingnan University (LU);
  - The Hong Kong Polytechnic University (PolyU).
- FTE enrollment: full-time equivalent enrollment. It refers to the number of student enrollments at a university.
- Retention rate: it is based on students of UGC-funded programs who continued their studies (excluding RPg) by level of study, mode of study and university.
- Non-local student (%): proportion of student body from outside Hong Kong.
- Operating margin: operating income divided by total operating expense. Operating income: operating revenue minus total operating expense.
- Cash & investments: sum of cash, unrestricted and restricted financial investments, including their related foundations. It measures balance sheet resources.
- Cash & investments to operating expenses: cash & investments divided by total operating expense.
- Government subvention: mainly refers to government grants through University Grants Committee (UGC). It is composed of recurrent grants and capital grants. Recurrent grants are to support universities' academic work and related administrative activities, and capital grants are used to finance major works projects and minor campus improvement works.

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- Global Ratings List: International Public Finance Entities July 2024, Jul 30, 2024
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- Australian Universities: Would International Student Caps Spur A Course Correction?, Jun 11, 2024
- Criteria: Global Not-For-Profit Education Providers, Apr 24, 2023

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