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Research Update:

Territory of Yukon 'AA' Rating Affirmed On Exceptional Liquidity, Very Low Debt Burden; Outlook Stable

Primary Credit Analyst:

Stephen Ogilvie, Toronto (1) 416-507-2524; stephen.ogilvie@standardandpoors.com

Secondary Contact:

Bhavini Patel, CFA, Toronto (1) 416-507-2558; bhavini.patel@standardandpoors.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Key Statistics

Ratings Score Snapshot

Key Sovereign Statistics

Related Criteria And Research

Ratings List

Research Update:

Territory of Yukon 'AA' Rating Affirmed On Exceptional Liquidity, Very Low Debt Burden; Outlook Stable

Overview

- We are affirming our 'AA' long-term issuer credit rating on the Territory of Yukon.
- We are also affirming our 'AA' issue-level rating on Yukon Development Corp.'s senior unsecured debt.
- The ratings reflect our opinion of the territory's exceptional liquidity; very low debt burden and contingent liabilities; strong financial management and budgetary performances; average economy and our view of the "very predictable and well-balanced" institutional framework for Canadian territories.
- The stable outlook reflects our expectation that Yukon will continue to produce strong operating surpluses and small after-capital deficits, liquidity will remain exceptional despite some drawdown in the next two years, and that the debt burden will remain low.

Rating Action

On Sept. 29, 2015, Standard & Poor's Ratings Services affirmed its 'AA' long-term issuer credit rating on the Territory of Yukon. At the same time, Standard & Poor's affirmed its 'AA' issue-level rating on the senior unsecured debt of Yukon Development Corp. (YDC), the territory's wholly owned electric utility. The outlook is stable.

Rationale

The ratings reflect Standard & Poor's opinion of the territory's exceptional liquidity; very low debt burden and contingent liabilities; strong financial management and budgetary performance; and average economy. The ratings also reflect our view of the "very predictable and well-balanced" institutional framework for Canadian territories. In our opinion, the territory's budgetary flexibility is weak and its economy has a relatively high exposure to the mining industry, despite its high GDP per capita.

We view the territory's debt burden as very low. At fiscal year-end 2013-2014 (March 31, 2014), tax-supported and direct debt was C\$63.0 million, or about 5% of consolidated operating revenues. Interest expense was stable, at 0.2% of adjusted operating revenues. We do not expect Yukon to borrow in fiscal years 2015-2016 and 2016-2017. Based on our base-case forecast, in the next two

years, we expect tax-supported debt to remain stable or decline modestly, remaining lower than 5% of consolidated operating revenue. The territory's interest will also remain stable, at less than 0.5% of adjusted operating revenue. In our opinion, Yukon's tax-supported debt burden compares very favorably with those of its international and Canadian peers.

The territory's contingent liabilities are very low, in our opinion. Those liabilities consist mainly of standard postemployment benefits and environmental liabilities and represented about 11% of adjusted operating revenues at the end of fiscal year 2013-2014. Yukon owns its electric utility, YDC. We view YDC as a self-supporting entity and believe that in the event of the utility's financial stress, support for YDC would be very limited -- no greater than 2% of consolidated operating revenues.

In our view, the territory demonstrates strong financial management, which positively affects its credit profile. Its annual financial reports are comprehensive and detailed and are independently audited. Yukon's budgets provide visibility and are detailed: The territory provides three-year financial forecasts and a five-year capital plan. We believe management of debt and liquidity is prudent and related policies are risk-averse.

We believe Canadian territories benefit from a "very predictable and well-balanced" local and regional government framework that has demonstrated a high degree of institutional stability. Yukon benefits from significant revenue support through the Territorial Formula Financing (TFF) grant, Canada Health Transfer, and Canada Social Transfer payments from the federal government. In fiscal 2013-2014, total transfers represented 82% of total revenues. We expect total federal transfers will continue increasing modestly in the next two years.

The territory produced strong budgetary results in fiscal years 2013-2014 and 2014-2015. Its operating balances for those years were 11.0% and 8.4% of adjusted operating revenues, respectively. After-capital balances were positive 5.5% and negative 1.0% of adjusted total revenues, respectively. The small 2014-2015 after-capital deficit is mainly the result of elevated capital spending in that year and a smaller operating balance to a lesser degree. We expect that the territory's financial results will weaken in fiscal 2015-2016 as we are projecting under our base-case scenario that Yukon will produce an operating surplus of about 6% of projected operating revenues and an after-capital deficit of 6% of projected total revenues. Based on our base-case forecast for fiscal years 2013-2014 to 2017-2018, we expect that Yukon will continue to produce strong budgetary results, with operating balances averaging 6% of operating revenues. After-capital balances, however, should fall into deficits of about 2% of total revenues on average as capital spending remains high.

In our opinion, Yukon's economy is average, but has a relatively high exposure to the mining sector and swings in commodity prices, which tempers somewhat our assessment of the territory's economic strength. Because of the negative impact of lower mineral prices on exploration, development, and production,

Yukon's economy contracted in 2014 for a second consecutive year. We believe that real GDP fell from 1%-2% in 2014 following a 0.9% decline in 2013. We expect that the economic growth will continue to be weak in the next two years and be lower than that of peers, which also tempers our assessment of Yukon's economic strength. We believe, however, that the territory's nominal GDP per capita remains high, at about US\$65,200, based on the average of 2012-2014 data (as per our criteria). Despite the fall in real GDP, labor results improved. The unemployment rate dropped to 4.2% in 2014 from 5.7% in 2013. The labor force and employment increased about 1% and close to 4%, respectively. Yukon's unemployment rate remained well below the national average of 7.3%, and was the lowest of all Canadian provinces and territories except Saskatchewan. For 2015, we expect real GDP will contract again, by 1%-3%, before returning to growth in 2016.

Although transfers from the federal government provide a stable and predictable revenue source, we believe Yukon's budgetary flexibility is weak and somewhat constrained as a result. Modifiable revenues typically account for a relatively small percentage of operating revenues. As of March 31, 2014, modifiable revenues equaled about 17.8% of operating revenues. In addition, the territory's ability to increase its own-source revenues is somewhat constrained as a result of the Taxpayer Protection Act, which stipulates that the government cannot introduce a new tax or increase an existing one (in particular, personal and corporate income taxes and fuel taxes) without a referendum. As of March 31, 2013, Yukon recorded capital expenditures equal to 6.9% of total expenses. In our base-case scenario, we expect that the territory's capital expenditures will remain in line with historical results, representing less than 15% of total expenditures on average.

Liquidity

Yukon's liquidity remains exceptional, in our view. At the end of fiscal 2013-2014, the territory had cash and marketable securities of close to C\$300 million. We expect that fiscal year-end 2014-2015 liquidity will be in line with fiscal year-end 2013-2014 or higher. We further expect that liquidity could fall in fiscal years 2015-2016 and 2016-2017 as the territory uses some of its cash to fund elevated capital spending. We believe that Yukon has "strong" access to external liquidity, in line with many of its Canadian peers. At fiscal year-end 2014-2015, the territory's free cash and liquid assets of close to C\$280 million (Standard & Poor's-adjusted) represented more than 35x of its next year's debt service. Under our base-case scenario, we believe liquidity will remain exceptional, with free cash and liquid assets exceeding 100% of 12 months' debt service costs throughout our two-year outlook horizon.

Outlook

The stable outlook reflects our expectation that, in the next two years, Yukon will continue to produce small after-capital deficits and strong operating surpluses that exceed 5% of consolidated operating revenues. We also expect

that its liquidity will remain exceptional despite some drawdown in the next two years, remaining well above 100% of the next 12 months' debt service; and that the territory's debt burden will remain low, at well under 30% of projected consolidated operating revenues. Although we believe it is very unlikely, we might consider a negative rating action if, under our downside scenario, a deterioration of financial management practices coupled with a significant and sustained weakening of budgetary performance such that the territory records average operating balances of less than 5% of consolidated operating revenues and after-capital deficits that are greater than 5%. We could raise our ratings if Yukon's economy expanded and diversified such that the territory's modifiable revenues became the dominant revenue source.

Key Statistics

Table 1

Territory of Yukon -- Economic Statistics					
	--Fiscal year ended March 31--				
(%)	2010	2011	2012	2013	2014f
Population (total)	34,596	35,402	36,247	36,623	37,183
Population growth	2.6	2.3	2.4	1.0	1.5
GDP per capita (C\$)	66,857	70,646	69,054	69,328	68,795
Real GDP growth	4.5	3.4	3.3	(0.9)	(1.2)
Unemployment rate	6.9	5.4	6.9	5.7	4.2

Note: The data and ratios above result in part from Standard & Poor's own calculations, drawing on national as well as international sources, reflecting Standard & Poor's independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. Sources typically include national statistical offices. f--Forecast.

Table 2

Territory of Yukon -- Financial Statistics						
	--Fiscal year ended March 31--					
(Mil. C\$)	2012	2013	2014bc	2015bc	2016bc	2017bc
Operating revenues	1,141	1,202	1,260	1,289	1,329	1,352
Operating expenditures	1,006	1,071	1,154	1,211	1,287	1,274
Operating balance	135	132	106	78	43	78
Operating balance (% of operating revenues)	11.9	11.0	8.4	6.0	3.2	5.8
Capital revenues	34	14	17	14	1	0
Capital expenditures	88	79	135	173	148	101
Balance after capital accounts	81	67	(12)	(81)	(105)	(23)
Balance after capital accounts (% of total revenues)	6.9	5.5	(1.0)	(6.2)	(7.9)	(1.7)
Debt repaid	3	24	6	5	5	5
Balance after debt repayment and onlending	78	43	(18)	(86)	(109)	(28)
Balance after debt repayment and onlending (% of total revenues)	6.6	3.5	(1.4)	(6.6)	(8.2)	(2.0)
Gross borrowings	19	0	0	0	0	0
Balance after borrowings	97	43	(18)	(86)	(109)	(28)

Table 2

Territory of Yukon -- Financial Statistics (cont.)						
Operating revenue growth (%)	9.0	5.4	4.8	2.3	3.1	1.7
Operating expenditure growth (%)	5.1	6.5	7.8	5.0	6.2	(1.0)
Modifiable revenues (% of operating revenues)	16.9	17.8	18.6	17.8	19.2	19.0
Capital expenditures (% of total expenditures)	8.1	6.9	10.4	12.5	10.3	7.3
Direct debt (outstanding at year-end)	81	63	60	56	51	47
Direct debt (% of operating revenues)	7.1	5.2	4.7	4.4	3.9	3.4
Tax-supported debt (% of consolidated operating revenues)	6.9	5.1	4.6	4.2	3.8	3.3
Interest (% of operating revenues)	0.1	0.2	0.2	0.2	0.2	0.2
Debt service (% of operating revenues)	0.4	2.2	0.7	0.6	0.6	0.6

Note: The data and ratios above result in part from Standard & Poor's own calculations, drawing on national as well as international sources, reflecting Standard & Poor's independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. Base case (bc) reflects Standard & Poor's expectations of the most likely scenario. Downside case represents some but not all aspects of Standard & Poor's scenarios that could be consistent with a downgrade. Upside case represents some but not all aspects of Standard & Poor's scenarios that could be consistent with an upgrade. bc--Base case.

Ratings Score Snapshot

Table 3

Territory of Yukon -- Ratings Score Snapshot	
Key Rating Factors	Assessment
Institutional Framework	Very predictable and well-balanced
Economy	Average
Financial Management	Strong
Budgetary Flexibility	Weak
Budgetary Performance	Strong
Liquidity	Exceptional
Debt Burden	Very low
Contingent Liabilities	Very low

Note: Standard & Poor's ratings on local and regional governments are based on eight main rating factors listed in the table above. Section A of Standard & Poor's "Methodology For Rating Non-U.S. Local And Regional Governments," published on June 30, 2014, summarizes how the eight factors are combined to derive the foreign currency rating on the government.

Key Sovereign Statistics

Sovereign Risk Indicators, June 30, 2015. Interactive version available at <http://www.spratings.com/sri>

Related Criteria And Research

Related Criteria

- Methodology For Rating Non-U.S. Local And Regional Governments, June 30, 2014

Related Research

- Canada Economic Outlook: Low Oil Prices Ignite Recessionary Forces, Sept. 3, 2015
- 2014 Annual International Public Finance Default Study And Rating Transitions, June 8, 2015

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed

Yukon (Territory of)	
Issuer credit rating	AA/Stable/--
Yukon Development Corp.	
Senior unsecured debt	AA

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