

Aug 07, 2020

R&I Assigns A-, Stable: Canadian Solar Infrastructure Fund, Inc.

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: Canadian Solar Infrastructure Fund, Inc.
Issuer Rating: A-, Assigned
Rating Outlook: Stable

RATIONALE:

Canadian Solar Infrastructure Fund, Inc. is an infrastructure fund that invests in renewable energy power generation facilities such as those for solar energy. The fund, which was listed in 2017, is sponsored by Canadian Solar Projects K.K.

The rating mainly factors in (1) the stability of earnings from solar power generation facilities operating under the feed-in tariff system (FIT), (2) relatively ample cash flow during the term of the fund and a sound debt service coverage ratio (DSCR) and (3) investment and management support from sponsors with an extensive track record in the solar power generation business.

The fund's asset size is 48.8 billion yen on an acquisition price basis with a total panel output of 120 megawatts, making it the largest among infrastructure funds at present. The sponsor's pipeline of properties has reached 361 megawatts. Through acquisitions of properties in this pipeline, the fund is expected to further increase the size of its assets. Yet as the largest property and properties in the Kyushu region each make up a big proportion of the total assets, there is room for improvement in the portfolio diversification.

Although properties in the Kyushu region are subject to power output control, for now the effects on the entire portfolio are not so big. The application of so-called 30-day rule, whereby the output control can be imposed up to 30 days a year, on all its properties in the region and the sound DSCR level have lessened risks.

As for large solar power generation facilities, FIT system will be switched to feed-in premium system based on market rates under the revised Act on Special Measures Concerning Procurement of Electricity from Renewable Energy Sources by Electricity Utilities, which will be introduced in 2022. In R&I's view, there in principle will not be any impact from this new policy on the selling prices of electricity from existing properties and pipeline properties.

The fund commissions O&M activities to the sponsor's subsidiary Canadian Solar O&M Japan K.K. The Canadian Solar Group is one of the largest solar panel makers in the world and has a long track record of the development and management of solar power generation facilities. Since its entry into the Japanese market in 2009, the group has engaged in various businesses related to solar power generation. In property management as well, the fund will likely be able to capitalize on the group's collective strength.

The fund aims to basically keep the LTV (on the basis of appraised value of power generation facilities) within the 50% range. As regards funding, a solid lender mix is in place, comprised primarily of Shinsei Bank, Ltd. Other lenders include Japan's three megabanks and regional banks. Most of the fund's borrowings are 10-year long-term loans (scheduled repayments during the loan period). Eighty percent of the fund's loans carry fixed interest rates. In 2019, the fund became the first infrastructure fund to issue investment corporation bonds.

The Rating Outlook is Stable. Earnings are highly stable, as the FIT allows the electricity selling prices to be fixed over a long period of time. Despite the property concentration in the Kyushu region, the healthy DSCR level and the application of the 30-day rule mitigate risks from the output control. The asset size is the largest among infrastructure funds. The fund is likely to further grow its assets through property acquisitions using a rich sponsor pipeline.

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The primary rating methodology applied to this rating is provided at "Rating Methodology for Infrastructure Funds". The methodology is available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

https://www.r-i.co.jp/en/rating/about/rating_method.html

R&I RATINGS:

ISSUER: Canadian Solar Infrastructure Fund, Inc. (Sec. Code: 9284)

Issuer Rating

RATING: A-, Assigned

RATING OUTLOOK: Stable

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