



# NEWS RELEASE

Aug 13, 2021

## 【Assignment of a Rating (Preliminary)】

### J-Value Trust Co., Ltd.

CEF Tsuyama Windfarm Project Bond Trust Beneficial Interest/ABL: BBB-

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

It should be noted that the rating is a preliminary rating, and R&I will conduct a final review of various points, including the content of agreements entered into, and issue its formal rating.

#### 1. OUTLINE OF THE STRUCTURE

The rating is for the project finance deal backed by the wind power project in Tsuyama City, Okayama.

#### 2. CREDIT RATING

INSTRUMENT NAME	CEF Tsuyama Windfarm Project Bond Trust Beneficial Interest/ABL
RATING ACTION	Assignment of a rating
R&I RATING(Prelim)	Long-term Issue Rating / BBB-
NOTE	The rating is an assessment of the probability that the principal and interest will be paid fully by the trust expiration date.

#### 3. ABOUT INSTRUMENT

TRUSTEE	J-Value Trust Co., Ltd.	UNDERLYING ASSET	Project
SPONSOR	CEF, Power Company A		
AM SERVICE PROVIDER/ MASTER O&M SERVICE PROVIDER	CEF		
WIND TURBINE SUPPLIER	VENSYS Energy AG		
SUB-O&M SERVICE PROVIDER	VENSYS Energy AG, VENSYS Japan		

INSTRUMENT NAME	AMOUNT (CURRENCY)	Sub. Ratio (*1)	Date of Issue Sched. Maturity Legal Maturity	Redemp- tion (*2)	Coupon Type/Rate
CEF Tsuyama Windfarm Project Bond Trust Beneficial Interest/ABL	Yen 18,600,000,000 (JPY)	—	May 31, 2024(TBD) Aug 29, 2042(TBD) Aug 31, 2044(TBD)	—	Fixed —

(\*1) Sub. Ratio: Subordination Ratio

(\*2) Redemption Method

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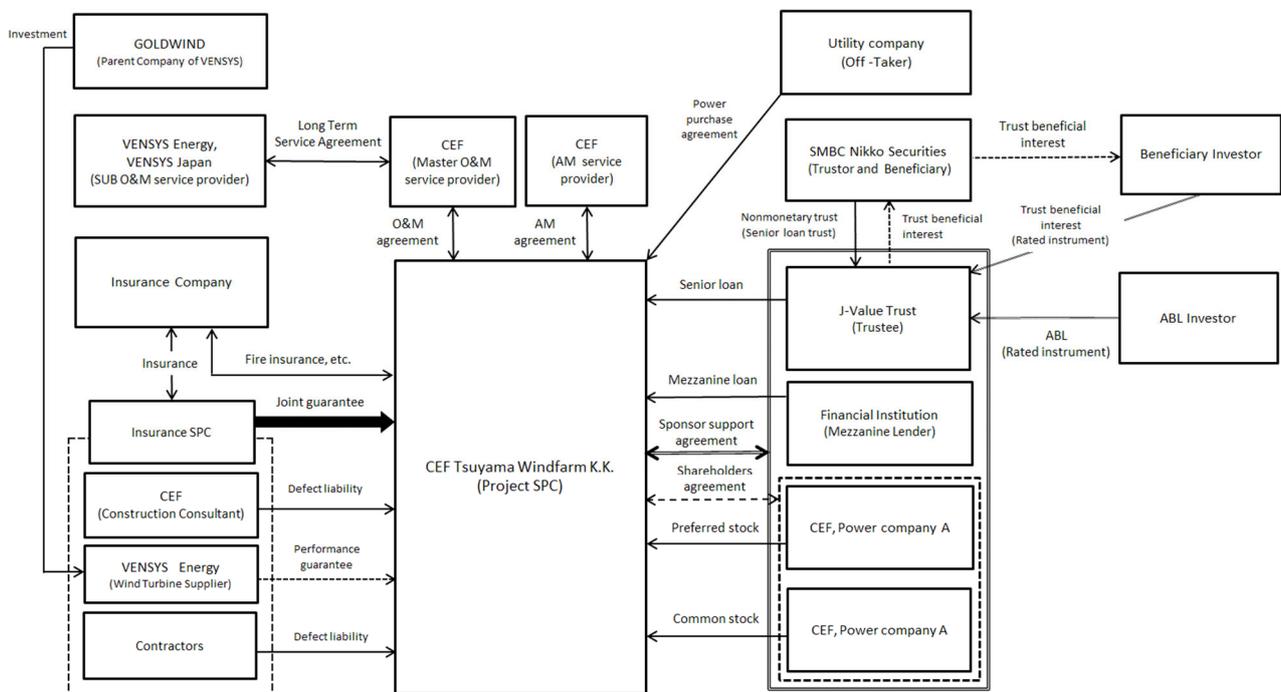
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<Outline of Scheme>

- ① The Trustor will obtain the trust beneficial interest in exchange for cash entrusted to the Trustee.
- ② Investors will either purchase the trust beneficial interest from the Trustor or provide ABL to the Trustee (the trust beneficial interest and the ABL are collectively referred to as the rated instrument). The Trustee will redeem the trust beneficial interest in the amount that is equal to the ABL.
- ③ CEF Tsuyama Windfarm K.K. (Project SPC) will develop a new wind farm (CEF Tsuyama Windfarm). The Project SPC is a joint stock company established by CEF to conduct this wind power project.
- ④ After the construction of CEF Tsuyama Windfarm is completed, the Project SPC will receive a senior loan from the Trustee and a mezzanine loan from a mezzanine lender to finance project costs and payments on a bridge loan for the construction period.
- ⑤ As regards the defect liability of each contractor and the performance guarantee by the wind turbine supplier in development construction, an Insurance SPC will provide a guarantee for the Project SPC on a joint and several basis.
- ⑥ During the project period, the Project SPC will supply generated electricity to a utility company and the utility company will pay cash for the electricity purchased from the Project SPC, pursuant to a power purchase agreement.
- ⑦ The Project SPC will repay the principal and interest of the senior loan semi-annually to the Senior Loan Trustee using cash flow from the sale of electricity after paying for operational expenses and setting aside necessary funds in reserves.
- ⑧ The Trustee will use the principal and interest of the senior loan it receives to repay the principal and interest to investors semi-annually.
- ⑨ The principal and interest payments on the senior loan, the mezzanine loan and the rated instrument are deferrable. The mezzanine loan is subordinate to the senior loan, and the mezzanine lender alone cannot make the loan immediately due and payable.
- ⑩ If the Debt Service Coverage Ratio (DSCR) calculated semi-annually falls short of a threshold, dividend payments to shareholders will be suspended. If the DSCR also fails to meet the threshold on the immediately following DSCR calculation date, the funds saved from the suspended payments will be used for the premature payment of a part of the principal of the senior loan, and the premature payment received will be used for the premature payment of a part of the principal of the rated instrument.



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## 4. RATIONALE FOR RATING

### 4-1. Risk Factors

The major risks associated with the transaction are described below:

#### <Risks regarding structure>

- ① Bankruptcy remoteness of SPV (Trust)
- ② Bankruptcy remoteness of SPV (Project SPC)

#### <Risks regarding the underlying asset (project)>

- ③ Sponsor's willingness and capability (expertise, operating structure, track record) and business continuity in case of sponsor bankruptcy
- ④ Appropriateness of business plan
- ⑤ Acquisition of ownership or leaseholds of project site, administrative permits and approvals, etc.
- ⑥ Functionality, reliability, durability and robustness of facilities
- ⑦ Business operation and management
- ⑧ Revenues and expenses
- ⑨ Accidents and natural disasters, etc.

### 4-2. Analysis of Risk Factors

#### ① Bankruptcy remoteness of SPV (Trust)

R&I deems the SPV (Trust) to be highly bankruptcy remote, for the following reasons:

- a) The SPV takes the form of a trust; hence, risks regarding capital relationship are absent.
- b) The SPV takes the form of a trust; hence, risks regarding personal relationship are absent.
- c) Business risk is limited, given the objective of the trust.
- d) There is a high degree of ring-fence, given that the trust assets are segregated and managed separately from the Trustee's own assets.

#### ② Bankruptcy remoteness of SPV (Project SPC)

R&I deems the SPV (Project SPC) to be reasonably bankruptcy remote, for the following reasons:

- a) Business risk is limited, given the restricted business objective of the SPV (Project SPC).
- b) The common stock of the SPV (Project SPC) is held by CEF and Power Company A, which serve as sponsors. The preferred stock held by the sponsors carries no voting rights. Important matters (e.g., amendments to the articles of incorporation, election and removal of directors) concerning the SPV (Project SPC) require unanimous adoption by all common stockholders. Moreover, the common stock of the Project SPC and all assets held by the Project SPC will be pledged as collateral. Hence, risks regarding capital relationship are reasonably limited.
- c) For the SPV (Project SPC), two directors are elected from each sponsor, and the shareholder composition will be maintained during the project period. Furthermore, important matters (e.g., amendments to the articles of incorporation, election and removal of directors) concerning the SPV (Project SPC) require unanimous adoption by all directors. Hence, risks regarding personal relationship are reasonably limited.

#### ③ Sponsor's willingness and capability (expertise, operating structure, track record) and business continuity in case of sponsor bankruptcy

- The sponsors of this project are CEF and Power Company A. The sponsors will execute the project based on, among others, a shareholders agreement between CEF, Power Company A and the Project SPC.
- CEF is a wind and solar power generation company founded in 2000, before the feed-in-tariff (FIT) scheme was introduced. It has engaged in construction, commissioning and operation services for 145 wind turbines of a total of 304,500kW in power generation capacity. In the development and operation of wind farms, CEF has a track record for 96 wind turbines with a total capacity of 181,500kW. In this project, CEF is the common stockholder and preferred stockholder of the Project SPC and also serves as a construction consultant during the development period and a master O&M service provider and asset manager (AM service provider) after the completion of construction.

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- Power Company A is the common stockholder and preferred stockholder of the Project SPC and offers advice to CEF and joint support. In the event of O&M or AM service provider bankruptcy, Power Company A intends to provide the oversight, cooperation and support that are necessary to execute the project by, for example, working to elect a substitute O&M service provider, become an AM service provider and elect a substitute AM service provider pursuant to a sponsor support agreement.
  - Given the role and substitutability of the sponsors in the project, R&I believes that the project is highly likely to continue even in the event of either sponsor's default after the commencement of this transaction.
- ④ Appropriateness of business plan
- Based on an evaluation of various risk factors, including the project's business continuity, cash flow fluctuation and event risks, R&I considers the business plan to be valid and executable.
- ⑤ Acquisition of ownership or leaseholds of project site, administrative permits and approvals, etc.
- The project site (the site for power generation and substation facilities) is owned by Tsuyama City and a forestry company. The Project SPC will acquire the right of lease or superficies for the project site. Permits and approvals have mostly been obtained at this moment, and explanations to local residents and communities have been made.
  - The Project SPC plans to acquire the right to use the project site for the duration of the project by the time when the construction of CEF Tsuyama Windfarm is completed and maintain the permits and approvals, by incorporating these in loan agreement as covenants. R&I therefore deems the probability of the execution or continuity of the project being hindered because of the failure to take such actions to be low.
- ⑥ Functionality, reliability, durability and robustness of facilities
- The wind turbines to be used at the project site are VENSYS 115 (rated power: 4.1MW) manufactured by VENSYS Energy AG (VENSYS), a German wind turbine supplier.
  - VENSYS is an innovative wind turbine supplier with technical prowess. It was ahead of other companies in developing gearless wind turbines with permanent magnet generators, and has patents for its technology. The predecessor of VENSYS was a research group for wind energy established at a German university. Led by a professor, the group designed and developed wind turbines and provided technical consulting services. In 2000, it was spun off to become VENSYS. In 2008, VENSYS became a subsidiary of Xinjiang GOLDWIND Science & Tech Co Ltd. (GOLDWIND), a major Chinese wind turbine manufacturer. VENSYS has a certain track record in supplying products to wind farms across the globe, though it does not have experience in Japan.
  - R&I conducted interviews with the wind turbine supplier and a European independent O&M service company that has adopted VENSYS wind turbines, and verified factors such as a track record and failure rates and availability levels in the past. R&I also confirmed the validity through, among others, technical reports on the functionality of power generation facilities as well as a plan to obtain certification and the progress thereof.
  - Taking the above factors into account, R&I reviewed the business plan, construction contractors' track records and capabilities, the AM service provider's track record and capability, and the location of the wind farm, as well as independent reports and results of interviews with the major stakeholders and on-site investigations, among others. Based on such review, R&I believes that the wind power generation facilities for the project are highly likely to achieve sufficient functionality, reliability, durability and robustness.
- ⑦ Business operation and management
- a) Operational and managerial capabilities and substitutability of O&M service provider
- The Project SPC entrusts O&M services for the project to CEF, which serves as a master O&M service provider. Of these O&M services, those related to wind turbines will be outsourced to VENSYS and its Japanese subsidiary VENSYS Japan, and CEF itself will operate and manage power generation facilities other than wind turbines. VENSYS and VENSYS Japan, as a sub-O&M service provider, operate wind turbines and offer O&M services with availability warranty for the duration of the project.

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- The O&M service provider has technical know-how, experience, a track record and expertise in the operation and maintenance of wind power projects. R&I therefore believes that the O&M service provider has sufficient operational capabilities and structures for O&M services in this project.
  - To assess the risk of O&M service provider bankruptcy, R&I examined the bankruptcy risk of CEF, a master O&M service provider that operates and manages power generation facilities other than wind turbines, and the bankruptcy risk of VENSYS and VENSYS Japan, a sub-O&M service provider and wind turbine supplier.
  - For the bankruptcy risk of CEF, it is stipulated that a Long Term Service Agreement (wind turbine maintenance agreement) concluded between the master O&M service provider and the sub-O&M service provider will be taken over by the Project SPC as it is. Moreover, there is a reasonable level of substitutability in the operation and management of power generation facilities other than wind turbines, Power Company A is expected to provide support for continuous services pursuant to a sponsor support agreement, and a business continuity plan (BCP) is prepared for the bankruptcy risk. Given these factors, R&I believes that the project is highly likely to continue.
  - For the bankruptcy risk of VENSYS and VENSYS Japan, GOLDWIND, the parent company of VENSYS, will likely provide support for parts supply, technical involvement by the O&M service company that has adopted VENSYS wind turbines, among others, is envisaged, CEF and Power Company A are expected to provide support for continuous services pursuant to sponsor support agreements, and a BCP is prepared for the bankruptcy risk. Given these factors, R&I believes that the project is highly likely to continue.
- b) Decision-making, managerial capabilities and willingness, and substitutability of AM service provider and sponsor
- The AM service provider of the project is CEF, which is one of the sponsors. CEF conducts necessary research and deals with various matters such as permits and approvals, administrative procedures and explanations to local residents and communities prior to the start of construction, and manages and oversees the project and provides consulting services during the construction period. After the wind farm comes into operation, it makes decisions and handles operations associated with the project, including the formulation of a business plan and the management of the progress, as well as coordination between parties involved in the project. R&I believes that the AM service provider has sufficient practical capabilities and structures, given its track record and experience and the importance of the project to the AM service provider.
  - In light of the expectation that in the event of AM service provider bankruptcy, Power Company A, the other sponsor, will become an AM service provider or elect a substitute AM service provider pursuant to a sponsor support agreement, as well as a reasonable level of substitutability based on the idea that there should be several companies capable of providing AM services in Japan, where many wind power projects are underway, R&I believes that even in the event of AM service provider default, the project is highly likely to continue, with AM services continuing to be executed.
- ⑧ Revenues and expenses
- Based on various factors pertaining to cash flow stability, such as the risk of deterioration in wind conditions, the risk of decline in the availability of power generation facilities owing to failures, the risk of increase in repair costs for power generation facilities, the risk of power output curtailment for the purpose of grid control, the risk of inflation, and the level of reserves, R&I conducted a cash flow analysis under the standard and stress scenarios, and confirmed that the Debt Service Coverage Ratio exceeds the threshold level.
  - Under the Act on Special Measures Concerning the Procurement of Renewable Energy by Operators of Electricity Utilities (Act on Renewable Energy), the electric power company, as the off-taker, is obliged to accept a request from a power producer to sign a power purchase agreement. In addition, given the public nature of an electric power business, the substitutability of the off-taker can be assumed to be reasonably high. Hence, R&I deems the impact of electric power company default on the continuity of this wind power project to be low.

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⑨ Accidents and natural disasters, etc.

- R&I deems the risk of events such as accidents and natural disasters for this wind farm to be low, based on independent reports, hazard information, results of site inspections, insurance coverage and cash reserves, among others.

## 4-3. Comprehensive Evaluation

Based on a comprehensive evaluation, R&I has assigned a Long-term Issue Rating (Preliminary) to the rated instrument.

## 5. RATING METHODOLOGY

The primary rating methodologies applied to this rating are:

Announced in	TITLE
April 2020	Chapter 1: General
April 2020	Chapter 2: Particulars: Risks regarding structure
April 2020	Chapter 3: Particulars: Risks regarding underlying assets Subchapter 19: Project (including PFI)
April 2020	Chapter 4: Particulars: Cash flow risk Subchapter 4: Analysis method for project finance

The above rating methodologies are available at R&I's website:

[https://www.r-i.co.jp/en/rating/about/rating\\_method.html](https://www.r-i.co.jp/en/rating/about/rating_method.html)

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