EthiFinance Ratings
formerly axesor rating

BBB

ISSUER RATING

Long-term Rating

Outlook: Stable

First rating date: 03/12/2021
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Rating Action & Rationale

- EthiFinance Ratings affirms Canadian Solar Inc.'s "BBB" rating, maintaining its Stable outlook.
- The company's rating is underpinned by its ability to have achieved a positive performance in 2021 despite very adverse cost conditions. In addition, the company has maintained adequate debt and liquidity levels, considering the high investments required by its business.
- ESG factors do not have a significant impact on the company's rating.

Issuer Description

Canadian Solar is a leading manufacturer of solar photovoltaic modules, provider of solar energy and battery storage solutions, and developer of utility-scale solar power and battery storage projects with a geographically diversified pipeline in various stages of development. Over the past 21 years, Canadian Solar has successfully delivered around 71 GW of premium-quality solar photovoltaic modules to customers in more than 150 countries. Likewise, since entering the project development business in 2010, Canadian Solar has developed, built and connected more than 6.6 GWp in over 20 countries across the world. As of June 2022, considering both the development of its solar and storage projects, the company had 2.7 GW of projects under construction, 5.6 GW of projects in backlog, 20.9 GW in advanced stage of development and 28.3 GW in early stage. Additionally, Canadian Solar had 0.3 GWp of solar projects in operation (gross figure of 0.8 GWp) and long-term service agreements within its battery storage integration segment amounting to 0.9 GWp. The company turnover grew considerably in 2021, reaching $5,277.2M (+51.8% YoY), resulting in a $498.8M EBITDA (+10.1 YoY) and a 9.5% EBITDA margin. NFD/EBITDA at year end 2021 stood at 3.1 times.

Fundamentals

Business profile

Industry risk assessment

- **Resilient sectors in the face of the adversities arising from COVID-19, with positive growth perspectives.** EthiFinance considers that Canadian Solar operates in two sectors: capital goods (CSI Solar) and renewables (Global Energy). Regarding solar modules manufacturing, its core business, the company benefitted from a higher solar module average selling price in 2021, since demand was high and costs registered an important rise compared to 2020, given the notable growth in both polysilicon prices and shipping expenses. However, international market prices are expected to fall in line with expected polysilicon price reductions from 2023 onwards, reflecting some volatility in the sector in terms of profitability. The solar photovoltaic industry, on the other hand, has experienced a boost during the last decade, evolving from a state-subsidized sector to a market-driven sector, as a result of sharp reductions of installation costs together with efficiency increases and a favorable regulation. The sector, with higher profitability levels and barriers to entry, has shown remarkable resilience to the pandemic, even though activity declined at times and shipping costs increased considerably, although the beginning of recovery is emerging as from Q4 2021.

- **Blended sector with a medium ESG risk.** If we were to consider only the capital goods sector's score, its value of 3.6/5 would penalize the industry's rating. However, if we also consider the proportionate share of the energy business, its score of 1.7/5 leads to a neutral overall view of the company's industry rating.

Company's competitive positioning

- **Leading competitive position in the solar photovoltaic industry, backed by a solid track record and a strong and diversified pipeline.** Canadian Solar is one of the five biggest global producers in terms of solar PV module shipments and solar PV developers by developed capacity (excluding utilities). On top of that, the company presents a favorable position to capture the rising demand of solar power needs, supported by its leading position as manufacturer of solar cells and modules and its solid pipeline. The company has one of the world's largest and most geographically diversified utility-scale solar and energy storage project development platforms, with a strong track record originating, developing, financing and building solar power plants across four continents (over 6.8 GWp). Its leadership position in both solar and energy storage project development results in aggregate pipelines as of June 2022: 26.2 GWp and 31.3 GWh, respectively.

- **Positive ESG score (79/100), although it does not upgrade its rating.** ESG issues are already considered and managed, leading to a low probability of occurrence of an ESG related impact on revenues, cash flows, asset value or reputation.

Governance

- **Listed company with a high free float, experienced management team and commited with ESG issues.** The shareholder structure is characterised by the fact that 66.1% corresponds to the public investor, while the remaining 33.9% is divided between the founder of the group, Mr. Shawn Qu (21.3%, with 0.1% among other executive members), which is positively valued, BlackRock (7.4%) and Grantham, Mayo, Van Otterloo & Co (5.0%). The company's business management in recent years is assessed as adequate, propelling the company to the top of its core business sector, besides adapting its strategy to benefit from ESG related sector trends, limiting risks and using ESG as an opportunity to grow. It should be noted that the carve-out IPO of their CSI Solar subsidiary remains on track, currently going through the registration process with the China Securities Regulatory Commission, once they received approval from the Shanghai Stock Exchange. In addition, we rate its financial policy as positive, especially due to its indebtedness while expanding its business, besides its non-dividend policy.

Financial profile

Cash-flow and leverage

- **Notable increase in revenues in 2021, in line with higher module prices, although profitability continues its downward trend.** In 2021, the company benefitted from a higher solar module average selling price, since demand was high and costs registered an important rise compared to 2020, given the notable growth in both polysilicon prices and shipping and handling expenses. This resulted in a relevant growth in revenues, standing at $5,277.2M (+51.8% YoY), also driven, amongst others, by higher solar module shipments recognized in revenues (from 10.3 GW to 14.3 GW). However, although gross profit of both business lines increased and the company's EBITDA rose a 10.1% in 2021, its EBITDA margin decreased to 9.5% in (-3.6pp YoY), hampered by a margin squeeze in the CSI Solar business, due to a sharp increase in operating costs (selling and distribution expenses rose 77.8%). Specifically, CSI Solar's EBITDA margin stood at 8.3% (-7.2pp YoY). The margin decline in Global Energy was much milder (-0.1pp), probably due to its activity requiring lower distribution expenses.
- **Relatively controlled indebtedness, given the demanding investments required.** Canadian Solar's balance sheet is mainly focused on the short-term, given its commercial activity which is highly intensive in working capital, exhibiting substantial indebtedness through short-term loans accessed to finance these its working capital requirements. Specifically, total financial indebtedness increased to $2,430.1M in 2021 (+11.4% YoY), mainly driven by a 60% increase in debt from Chinese banks, with its NFD/EBITDA ratio standing at 3.1x at year end. It should be noted that 87.1% of the company´s financial debt corresponded to banking debt, which stood at $2,116.5M in 2021.
- **Sufficient cash flow**. The company has been reporting adequate cash generation in its operations, sufficient to meet investment requirements and debt repayments. Despite this, we highlight as a negative aspect its dependence on debt from Chinese banks to finance its daily activity in the shorter term.

Solvency

Adequate solvency. Canadian Solar reports a financial structure characterised by positive levels of financial autonomy, with an equity/gross financial debt ratio of 87.5%, providing a certain cushion for its creditors against future losses besides holding valuable assets that could be monetized in times of stress.

Liquidity

Reasonable liquidity to honor its short-term financial commitments. Both the manufacturing and the project businesses are highly working capital-intensive activities: the first demands for significant investments in inventories and receivables accounts; while the second requires relevant upfront investments before collecting any cash from the sale or operation of these projects. Hence, it is important for the company to reach adequate liquidity levels to meet its debt repayments and fulfill capital requirements. We consider the company has a strong refinancing profile and an adequate liquidity risk, with available credit facilities and cash position at year end 2021 of $1,249.6M and $869.8M, respectively.

Main financial figures

Main consolidated financial figures				
(Thousands of €)	2019	2020	2021	2021vs20
Turnover	3,200,583	3,476,495	5,277,169	*51.8%*
EBITDA (1)	479,691	453,232	498,827	*10.1%*
EBITDA margin	15.0%	13.0%	9.5%	*-3.6pp*
Financial expenses (FE)	81,326	71,874	58,153	*-19.1%*
EBITDA/FE	5.9x	6.3x	8.6x	*2.3x*
Balance sheet	5,467,207	6,536,854	7,388,342	*13.0%*
Equity	1,425,058	1,892,785	2,126,438	*12.3%*
Gross financial debt (2)	1,954,830	2,180,690	2,430,220	*11.4%*
Net financial debt (NFD)	1,286,060	1,001,938	1,560,389	*55.7%*
NFD/EBITDA	2.7x	2.2x	3.1x	*0.9x*
Funds from operations (FFO)	411,132	406,830	446,605	*9.8%*
FFO/NFD	32.0%	40.6%	28.6%	*-12.0pp*
Cash and equivalents (3)	668,770	1,178,752	869,831	*-26.2%*

(1) EBITDA on a consolidated level; (2) Excluding derivatives and intragroup debt but including financial leasings; (3) Excluding restricted cash.

Rating sensitivities

Factors that may (individually or collectively) impact the rating:

- **Positive factors (↑):**
    - An effective fulfilment of the objectives of the Strategic Plan, which entails increasing sales by 55% in the next two years whilst maintaining NFD/EBITDA levels below 2x.
    - Improvement in ESG factors that can increase the total score and have a positive influence on the final rating.
- **Negative factors (↓):**
    - A substantial deviation in the company's strategic objectives, including significantly lower sales versus projected and maintaining its NFD/EBITDA consistently above 3x.
    - Failure to convert most of its backlog into projects that are commercially operative and transitioning a fair amount of its pipeline to the Ready-to-Build phase.

Regulatory information

Sources of information

The credit rating assigned in this report has been requested by the rated entity, which has also taken part in the process. It is based on private information as well as public information. The main sources of information are:

- Annual Audit Reports.
- Corporate Website.
- Information published in the Official Bulletins.
- Rating book provided by the Company.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies, and in accordance with the Corporate Rating Methodology and Outlook Methodology that can be consulted on https://www.ethifinance.com/en/ratings/methodologies and according to the Long-term Corporate Rating scale available at https://www.ethifinance.com/en/ratings/ratingScale.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.

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