COMPANY RESEARCH AND ANALYSIS REPORT

Takara Leben Infrastructure Fund, Inc.

9281

Tokyo Stock Exchange Infrastructure Fund Market

7-Oct.-2019

FISCO Ltd. Analyst

Nozomu Kunishige

FISCO Ltd.

http://www.fisco.co.jp

Index

Summary

Highly likely that results will exceed forecasts in FY11/19 and beyond

1. Japan's first infrastructure investment fund

Takara Leben Infrastructure Fund, Inc. <9281> (hereafter, "TIF"), is Japan's first infrastructure investment fund, and it stably provides appealing dividends to its unitholders through investment in solar power generation and other such facilities. TIF will continue to grow in the future, such as through utilizing the management expertise in power generation facilities and brand power of its sponsor, Takara Leben Co., Ltd. <8897>, and the independent network of Takara Asset Management Co., Ltd. The major appeal of TIF is that, based on the Feed-in-Tariff (FIT) system, it has established a framework to continue to steadily generate cash flow and revenue to stably pay dividends to unitholders.

2. The FY5/19 results exceeded the initial forecasts, and the dividend also increased

As a result of expanding its asset size, TIF's total assets held as of the end of May 2019 included 25 properties (total price: ¥31,454mn), and total panel output of 69.5MW. As a result, in the FY5/19 operating revenue was ¥1,517mn (up 1.6% from FY11/18) and ordinary income was ¥484mn (down 0.8%). Because actual power generated exceeded the forecast amount, operating revenue and ordinary income exceeded the initial forecasts announced on January 15, 2019, by 3.3% and 5.9%, respectively. This period, in continuation from the previous period, Kyushu Electric Power Co., Inc. <9508> implemented measures to keep down solar power output in order to maintain the supply-demand balance, but the minimum guaranteed rent received by TIF from Takara Leben is fixed, so this had no impact on results. Reflecting the upturn in results, the dividends per unit (including return of capital) was also increased by ¥195 yen (5.4% increase) to ¥3,826 yen per unit.

3. Results may exceed the forecasts from FY11/19 onwards also

In June 2019, TIF acquired its 26th solar power generation facility, and the forecasts are as follows: for FY11/19, operating revenue of ¥1,459mn (down 3.8% from FY5/19), operating income of ¥481mn (down 13.6%), ordinary income of ¥413mn (down 14.7%), and net income of ¥412mn (down 14.7%); for FY5/20, operating revenue of ¥1,506mn (up 3.2% from FY11/19), operating income of ¥523mn (up 8.6%), ordinary income of ¥455mn (up 10.2%), net income of ¥455mn (up 10.3%); for FY11/20, operating revenue of ¥1,459mn (down 3.2% from FY5/20), operating income of ¥472mn (down 9.7%), ordinary income of ¥408mn (down 10.3%), and net income of ¥408mn (down 10.3%). Also, the forecast dividends per unit (including return of capital) are ¥3,307 for FY11/19, ¥3,612 for FY5/20, and ¥3,231 for FY11/20. The reason why the revenue and profit forecasts are higher for fiscal periods ending in May than in November is that in a typical year, more power is generated in the fiscal period ending in May than in the fiscal period ending in November. Going forward, it seems likely that the results will surpass the forecasts due to the excess in the actual power generated and the new acquisitions of power facilities.

4. Growth is being driven by external growth and internal growth

In the medium- to long-term, it is possible that TIF will grow from external growth through newly acquiring power facilities. That is to say, the sponsor is aiming to operate 250MW of generating capacity by the end of March 2021, which corresponds to 3.5 times TIF's current power generation, so it can be said that its growth potential is enormous. It is also aiming to acquire solar power generation and other such facilities from third parties other than the Takara Leben Group. In addition, TIF is aiming for internal growth, such as through improving the operating rates and rent at the power facilities it already owns, and reducing management costs. Further, against the backdrop of expansion in ESG investment worldwide, TIF intends to also focus on social contribution activities in accordance with its fundamental principle.

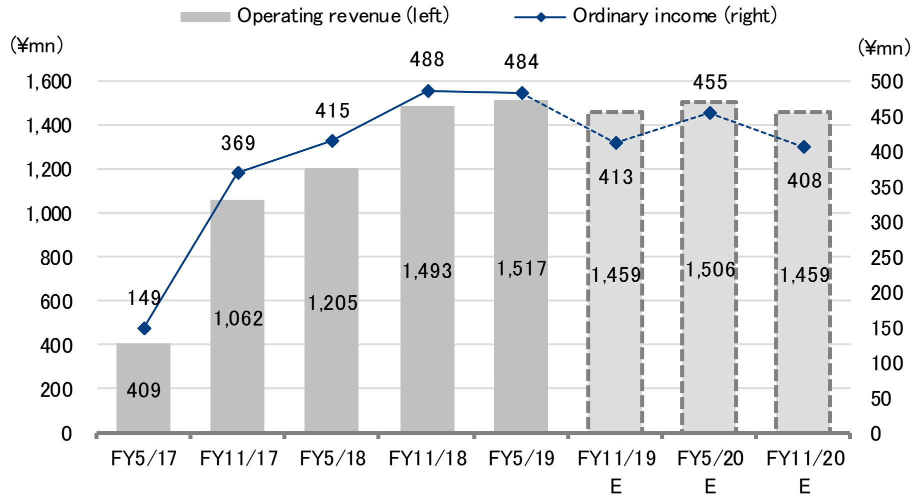
5. Stably high dividends are appealing and TIF has the highest distribution yield based on net income

TIF's policy is to return profits to unitholders twice a year, and it plans to pay high dividends each six months. The forecast dividends per unit (including return of capital) is ¥3,307 for FY11/19 and ¥3,612 for FY5/20, and when converted to an annual figure, the dividend yield is 5.92% based on the investment unit price of July 30, 2019, of ¥116,900. Of this, the dividend yield based on net income is 5.36%, which is the highest among the infrastructure investment funds. Furthermore, TIF has so far paid dividends above the initial forecast in every fiscal period, so for FY11/19 onwards as well, there are major expectations for upward revisions. TIF also received an A - (A minus: stable) rating from Japan Credit Rating Agency, Ltd. (JCR), which is likely to give investors a sense of security.

Key Points

- Japan's first infrastructure investment fund, provides investors with attractive dividends in a stable manner through investment in solar power generation facilities and other facilities
- FY5/19 results surpassed initial forecasts because actual power generation volume exceeded the expected power generation volume
- Highly likely that results will continue to exceed the initial forecasts in FY11/19 and beyond, alongside the excess in actual power generated and the new acquisitions of power facilities
- The sponsor's development assets are forecast to expected output of 250MW by the end of March 2021, so in the medium- to long-term, the growth capacity is enormous, while in addition TIF will be paid attention to as a target for ESG investment
- TIF forecasts a dividend of ¥3,307 for FY11/19 and ¥3,612 for FY5/20. Of these distributions, the dividend yield based on net income is the highest among infrastructure investment funds

Results trends



Note: Figures are forecasts as of January 15, 2019
Source: Prepared by FISCO from the Company's financial results

Overview and Characteristics

Japan's first infrastructure investment fund that invests in solar power generation facilities

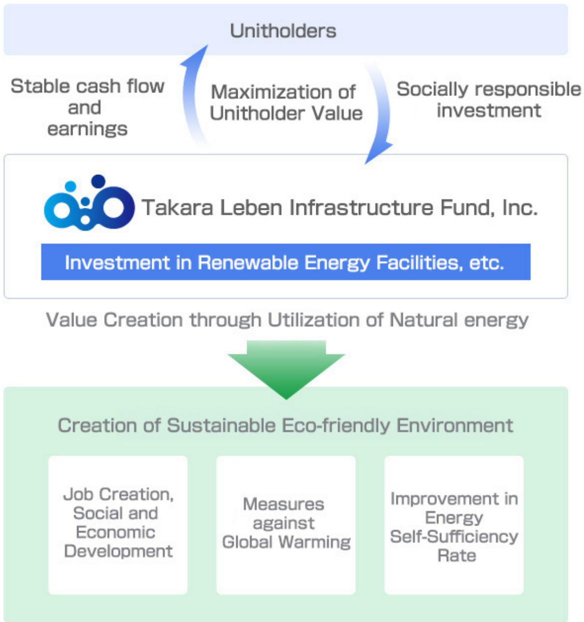
1. TIF's basic policy

TIF was listed on the Tokyo Stock Exchange (TSE) Infrastructure Fund Market on June 2, 2016, as Japan's first infrastructure investment fund. It has two fiscal periods a year (its fiscal periods end twice a year, in May and November, in order to eliminate seasonality of revenue that accompanies the fluctuations in power generation as much as possible). TIF is aiming to grow based on its sponsor support contract in which receives various types of support from its sponsor, Takara Leben, such as its management expertise in renewable energy power generation facilities and its brand power, and also from utilizing Takara Asset Management's independent network.

The introduction of renewable energy power generation facilities and other such facilities that TIF targets for investment plays various roles, including reducing carbon dioxide emissions and improving the energy self-sufficiency ratio, so there are great expectations for its contributions to solving the problems in Japan's energy policy. In this sort of environment, TIF's fundamental principle is to create a sustainable eco-friendly environment, and also to contribute to creating value and employment opportunities, developing a social economy, preventing global warming and increasing Japan's energy independence through utilizing natural energy.

Based on this principle, TIF is aiming to expand the scale of managed assets, realize improvements in revenue, and maximize unitholder value, at the same time as maintaining stable cash flow and revenue, mainly through investing in specific assets, such as renewable energy power generation facilities.

Basic policy



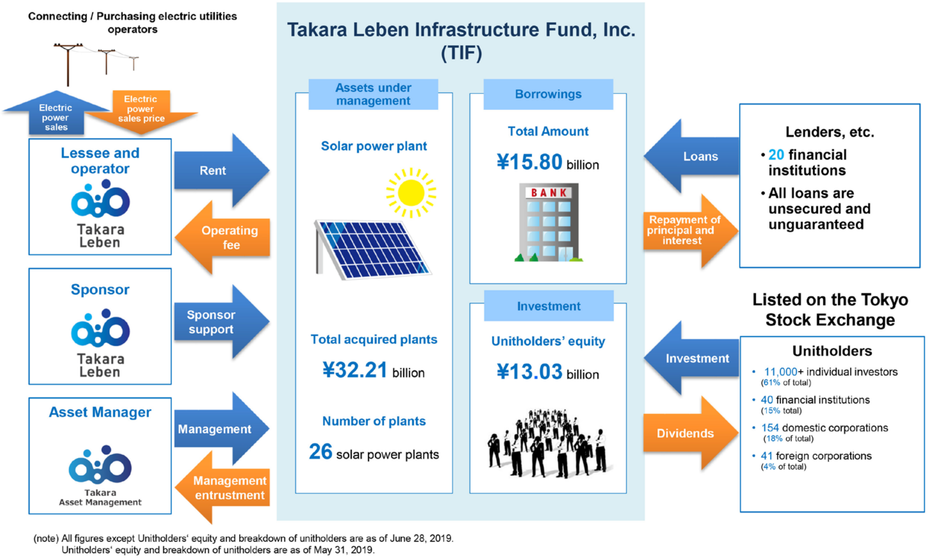
Source: Company website

2. TIF's framework

TIF's primary investment targets are renewable energy power generation facilities and other such facilities. Among the renewable energy power generation facilities in which it has invested, on an acquisition-price basis, more than 90% are solar power generation facilities. Other than these, its investment ratio is less than 10% in renewable energy power generation facilities. In particular, it is considered that in the near future, solar power generation will play a central role among the various forms of renewable energy. In the medium- to long-term also, it is considered that it will serve as important source of power, and at the current stage, all TIF's investment targets are at solar power generation facilities.

Also, in order to meet the requirements of conduit tax treatment (the inclusion of the amount of dividends etc. in the investment fund deduction amount, which is permitted in order to prevent double taxation between the investment fund and unitholders), TIF adopts a framework in which it leases the renewable energy power generation and other such facilities it has invested to the lessee (Takara Leben), and TIF receives lease income from the lessee.

TIF's framework



Note: Figures are forecasts as of May 31, 2019
Source: The Company's results briefing materials

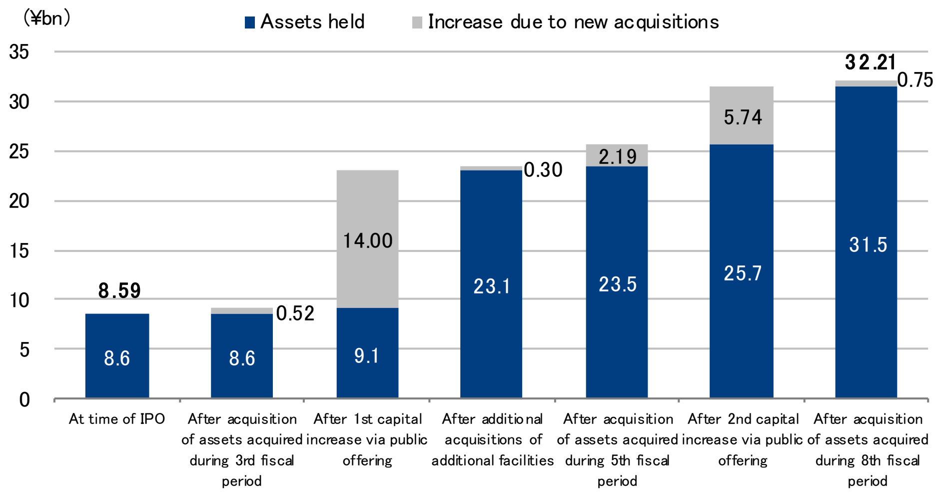
3. TIF's characteristics

TIF is the first infrastructure investment fund in Japan and it has the following characteristics; 1) a sustainable growth strategy through steadily acquiring facilities, 2) a portfolio developed nationwide centered on areas with high demand for electric power, 3) a policy of returning profits to unitholders that prioritizes profit dividends, and 4) it is the only listed infrastructure fund with a rating.

1) Sustainable growth strategy through steadily acquiring facilities

TIF has increased the total price of managed assets by approximately 3.7 times in the 3.5 years after it was listed, from ¥8.59bn to ¥32.21bn. In addition, TIF has increased its portfolio's total panel output 4.0 times over this period, from 17.8MW to 71.9MW. Going forward, TIF will acquire additional assets, mainly through acquiring the sponsor's development assets, as well as through Takara Asset Management's independent network route, and it is expected to grow steadily.

Total price of managed assets

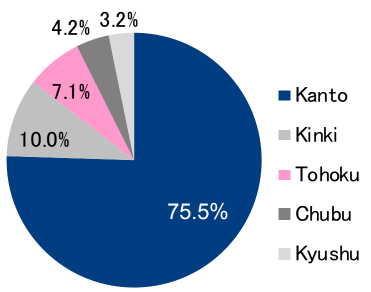


Source: Prepared by FISCO from the Company's results briefing materials

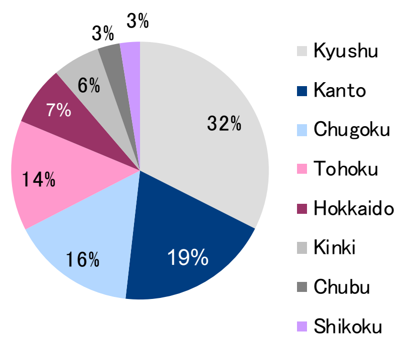
2) Portfolio developed nationwide centered on areas with high demand for electric power

Looking at the regional distribution of the 26 power generation facilities held by TIF, we see that close to 90% of its assets are located in three regions: 75.5% in the Kanto region, 10.0% in the Kinki region, and 4.2% in the Chubu region. In this way, operations are centered on areas with high demand for electric power, and therefore stable electric power sales revenue can be expected in the future as well. In recent years, the Kyushu region continues to be heavily damaged by torrential rains, large typhoons, and volcanic eruptions, while the Hokkaido region has suffered from typhoons and earthquakes. One of the characteristics of TIF is that the ratio of facilities in Kyushu and Hokkaido are small, at 3.2% and 0%, respectively, compared to the total average of other infrastructure investment funds, which are 32% and 7%, respectively, in Kyushu and Hokkaido. Furthermore, due to TIF receiving a minimum guaranteed rent, the output control by Kyushu Electric Power does not affect TIF's business results.

Distribution of portfolio assets by region (as of July 1, 2018)



Portfolio assets held by other investment corporations by region

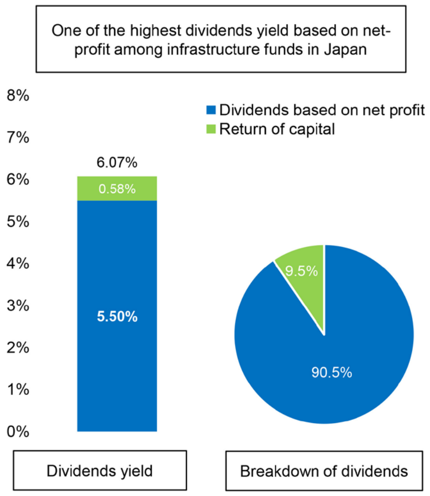


Note: Ratios calculated by totaling the panel output by region of other investment corporations
Source: Prepared by FISCO from the Company's results briefing materials and the most recent results briefing materials from each investment corporation

3) Policy of returning profits to unitholders that prioritizes profit dividends

TIF prioritizes dividends based on net income, instead of returning capital (distributions in excess of profits). In other words, by curbing the return of capital, it emphasizes efficient reinvestment. As a result, dividends based on net income account for 90.5% of overall dividends, while the return of capital accounts for only 9.5%. Also, the yield based solely on net income-based dividends was 5.50% as of July 1, 2019, which is the highest level among infrastructure funds (refer to "Comparison of infrastructure funds' forecast dividend yields" on the last page of the report). In this way, the high yield on net income-based dividends is one reason for this high ratio of financial institutions among investors.

Profit-driven dividends policy



Note; As of July 1, 2019
Source: The Company's results briefing materials

4) The first listed infrastructure fund to acquire an issuer rating

On May 10, 2017, TIF became the first listed infrastructure fund to acquire a credit rating. On July 29, 2019, TIF received an A- (A minus: stable) from JCR. The robust financial position backed by the credit rating has given investors a sense of security to invest in the fund.

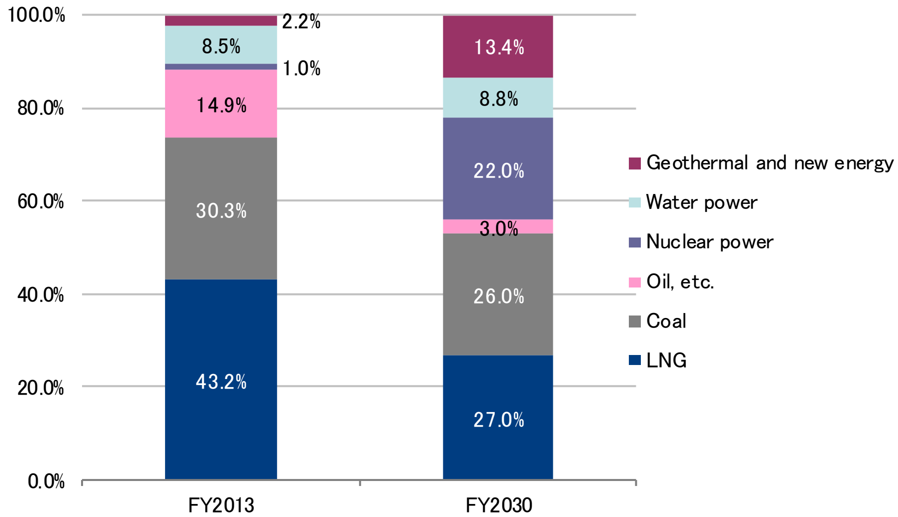
Outlook for renewable energy

Renewable energy is expected to grow

1. The prospects for renewable energy

In the Paris Agreement, the international framework for combatting global warming, Japan set a goal of reducing greenhouse gas emissions in FY2030 by 26% from the FY2013 level. The core efforts for achieving this target are to promote low-emissions energy, including increasing the amount of renewable energy, as well as further boost energy efficiency. On July 16, 2015, the Ministry of Economy, Trade and Industry (METI) formulated the Long-term Energy Supply and Demand Outlook (energy mix) as a possible form of the realizable energy supply-and-demand structure in the future. In terms of the prospects for the power supply mix in FY2030, METI forecasts that renewable energy, including hydropower, will provide around 22% to 24% of the power supply, and that solar power's contribution will increase to 7%. In the Fifth Basic Energy Plan, the government has clarified its policy of aiming to steadily realize the energy mix for FY2030. Furthermore, heading towards 2050, the government's plan is to switch energy sources and move away from carbon, and will aim to make renewable energy the main source of power in order to reduce greenhouse gas emissions by 80%. Still, looking at the current worldwide trend and having experienced a nuclear power plant accident following the Great East Japan Earthquake in March 2011, it is expected that the shift to safe and stable renewable energy in Japan will proceed at a faster pace than the government is forecasting.

METI Long-term Energy Demand and Supply Forecast

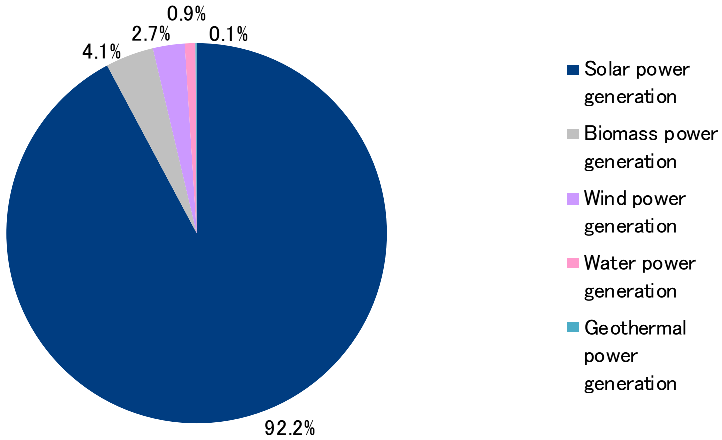


Source: Prepared by FISCO from the Company's results briefing materials

2. Purchases at fixed prices over 20 years based on the FIT system

Japan's FIT scheme for renewable energy is a system in which certain electric power businesses (electric power companies that supply electric power, such as to companies and households) are obliged to purchase electric power generated using certified renewable energy power generation facilities at fixed procurement prices over a 20-year period to spread purchases of renewable energy at fixed prices. Through this, power generation businesses can expect stable and continuous revenue from electric power sales, while it also makes it easier to recover the high construction costs required for renewable energy power generation facilities. Looking at renewable energy newly introduced since the launch of the FIT scheme, solar power accounts for 92.2% of capacity as of March 31, 2019, and solar power is expected to account for the majority of renewable energy going forward.

Volume ratio of renewable energy newly introduced after the start of FIT Scheme



Note: As of March 31, 2019. For solar power generation, 10kW or larger are included.
Source: Prepared by FISCO from the Company's results briefing materials

The procurement price of electric power generated using solar power generation facilities in the FIT scheme has been declining year by year, reflecting the drop in the system costs necessary for building power plants. METI has lowered the procurement price (per kilowatt-hour) from producers from ¥40 in FY2012 to ¥18 in FY2018, plans to further lower it to ¥14 in FY2019, and has communicated that its plan going forward is to lower the price to ¥8 between FY2022 and FY2024. However, it is necessary to be aware that the reduction in the purchase price applies only to new projects, and it will not be applied to already certified power facilities (for which the purchase prices have already been determined).

In fact, among its 26 power facilities, TIF has secured purchase prices of ¥40 for 6 facilities, ¥36 for 18 facilities, and ¥32 for two facilities, and the average purchase price for its entire portfolio is ¥36.62. TIF's sponsor, Takara Leben has concluded 20-year contracts with purchasing electric power companies, and the remaining procurement period for the entire portfolio is 16 years and two months. In addition, in Takara Leben's contracts, electric power companies will purchase power at the purchase price set for each facility for 20 years, not only for assets that have already been developed, but also for assets that are currently being developed as well as assets that it is planning to develop. In this way, thanks to the FIT scheme, TIF will be able to generate stable earnings and pay stable dividends to investors into the future.

Results trends

Strong results that exceeded the initial forecasts

1. FY5/19 results

During FY5/19, despite the fact that the global economy was weak in some areas, the Japanese economy continued on a mild recovery trend as the moderate overall recovery continued and the employment and income environment continued to improve due to various economic policies implemented by the Japanese government. However, in the second half of the period, there was a sense of some economic stagnation as a result of the downturn in external demand. In the environment surrounding renewable energy power generation and other such facilities, as before, the issues include improving the primary energy self-sufficiency rate and reducing emissions of greenhouses gases. The introduction of renewable energy power generation and other such facilities that utilize natural energy is expected to help solve these problems in Japan's energy policy.

Since the acquisition of 10 properties on June 2, 2016, TIF has expanded its asset scale in accordance with its basic policy for asset management stipulated in its bylaws. As a result, as of the end of FY5/19, TIF owned 25 properties (total price: ¥31,454mn), and total panel output was 69.5MW.

As a result of the management of the above facilities, in FY5/19 operating revenue was ¥1,517mn (up 1.6% from FY11/18), operating income was ¥557mn (up 0.4%), ordinary income was ¥484mn (down 0.8%), and net income was ¥483mn (down 0.8%). Because actual power generated exceeded the expected amount of power generation, operating revenue was 3.5% higher than the initial forecast announced on January 15, 2019, while each of the profit lines were just under 6% higher than their respective initial forecasts announced on the same date. Reflecting the upturn in results, the dividends per unit (including return of capital) was also ¥195 higher than initially forecast (up 5.4%), at ¥3,826.

The reason for the large increase in operating revenue and profits in the previous fiscal period (FY11/18) was that actual power generation volume greatly exceeded the expected power generation volume due to the effects of the dry rainy season. In addition, in continuation from the previous fiscal period, Kyushu Electric Power kept measures in place to keep down solar power output in order to maintain the supply-demand balance, but this had no impact on TIF's results, as the minimum guaranteed rent that TIF receives from Takara Leben is fixed. Furthermore, the reason why there is practically no difference between ordinary income and net income is that listed infrastructure investment funds receive preferential treatment for corporate tax under certain conditions (they can deduct dividends from taxable income), and therefore there is no difference between pre-tax net income and final net income.

FY5/19 results

(¥mn)

	FY11/18			FY5/19			vs. previous forecast	
	Results	vs. operating revenue	vs. FY11/18	Results	vs. operating revenue	vs. FY11/18	Forecast	% change
Operating revenue	1,493	100.0%	23.9%	1,517	100.0%	1.6%	1,466	3.5%
Operating income	555	37.2%	17.2%	557	36.7%	0.4%	527	5.7%
Ordinary income	488	32.7%	17.7%	484	31.9%	-0.8%	457	5.9%
Net income	487	32.6%	17.8%	483	31.8%	-0.8%	456	5.9%
Net income per investment unit (¥)	3,524	-	0.4%	3,492	-	-0.9%	-	-
Dividend per investment unit (¥)	3,871	-	-2.6%	3,826	-	-3.8%	3,631	5.4%

Note: the previous forecasts were announced on January 15, 2019. The dividends per unit (including return of capital) includes the surplus earning distribution.
Source: Prepared by FISCO from the Company's financial results

Manages assets targeting LTV of 50%

2. Financial position and management indicators

In FY5/19, TIF did not procure new funds through the issuance of new investment units or via borrowings. Conversely, it carried out scheduled repayments, and so as of the end of FY5/19, its borrowing was ¥15,105mn. As a result, at the end of FY11/18, the percentage of interest-bearing debt to total assets; Loan to Value (LTV), was 52.4%. In principle, TIF has set an upper limit for LTV of 60%, but for the time being, in consideration of factors such as the portfolio size, it manages assets targeting 50%.

Also, through a capital increase of ¥2,230mn from a public offering on June 1, 2018, net assets increased to ¥13,519mn, while the equity ratio also rose to 46.9%. Going forward also, TIF is expected to conduct capital increases through public offerings when necessary for the funds to newly acquire power generation facilities.

Balance sheet and key management indicators

(¥mn)

	FY11/18	FY5/19	Change
Current assets	2,420	2,523	103
(Cash and deposits)	1,995	2,381	386
Non-current assets	26,892	26,315	-577
(Property, plant and equipment)	26,262	25,695	-567
Total assets	29,334	28,849	-485
Current liabilities	1,160	1,233	73
Non-current liabilities	14,602	14,097	-505
(Interest-bearing debt)	15,610	15,105	-505
Total liabilities	15,762	15,330	-432
Total net assets	13,571	13,519	-52
<Financial soundness>			
Current ratio (current assets ÷ current liabilities)	208.6%	204.6%	
Long-term debt ratio (long-term liabilities ÷ total liabilities)	92.6%	92.0%	
LTV (interest-bearing debt ÷ total assets)	53.2%	52.4%	
Equity ratio (shareholders' equity ÷ total assets)	46.3%	46.9%	

Source: Prepared by FISCO from the Company's financial results

Outlook

Results may exceed the forecasts from the excess of actual power generated and the new acquisitions of power facilities

Although there will be some weakness in the Japanese economy in the near term, the economy is expected to continue its moderate recovery due to the effects of various policies as the employment and income environments continue to improve.

However, close attention must be paid to the impact of trade problems on the global economy, as well as on China's economy, overseas economic trends and uncertainties regarding policies, as well as the effects of fluctuations in the financial and capital markets.

Among the renewable energy power generation facilities, in the environment surrounding solar power generation facilities, as of the end of March 2019 after the introduction of the FIT system for fixed-price purchases, the capacity of the solar power generation facilities certified in this system is approximately 70.2GW for non-residential use of 10kW or above, and around 6.4GW for residential use of less than 10kW. Within these amounts, the actually introduced amounts are approximately 38.4GW for non-residential use and around 6.1GW for residential use. On December 5, 2018, METI published New Measures on Non-operation of Approved Facilities for Photovoltaic Power Generation under the FIT scheme. New rule indicates that in principle, it would revise purchases prices in the event that certain conditions were not met within a certain period for the non-operating solar power generation for which a deadline to start operations had not been set, and for which certification have been received in the three years from FY2012. As a result of this, it is expected that non-operating projects with little chance of being realized will be weeded-out.

For the time being, TIF's policy is to primarily target solar power generation facilities for investment, and to acquire and manage assets based on an external growth strategy (acquisition opportunities from the sponsor's development assets, and acquisitions from Takara Asset Management's independent route), and an internal growth strategy (maintain and enhance asset value, and stabilize earnings by inspecting, repairing, and replacing facilities). In fact, on June 28, 2019, TIF acquired its 26th solar power facility.

From the above, the forecasts are as follows: for FY11/19, operating revenue of ¥1,459mn (down 3.8% from FY5/19), operating income of ¥481mn (down 13.6%), ordinary income of ¥413mn (down 14.7%), and net income of ¥412mn (down 14.7%); for FY5/20, operating revenue of ¥1,506mn (up 3.2% from FY11/19), operating income of ¥523mn (up 8.6%), ordinary income of ¥455mn (up 10.2%), net income of ¥455mn (up 10.3%); for FY11/20, operating revenue of ¥1,459mn (down 3.2% from FY5/20), operating income of ¥472mn (down 9.7%), ordinary income of ¥408mn (down 10.3%), and net income of ¥408mn (down 10.3%). Also, the forecast dividends per unit (including return of capital) are ¥3,307 for FY11/19, ¥3,612 for FY5/20, and ¥3,231 for FY11/20.

Results forecasts for FY11/19, FY5/20, and FY11/20

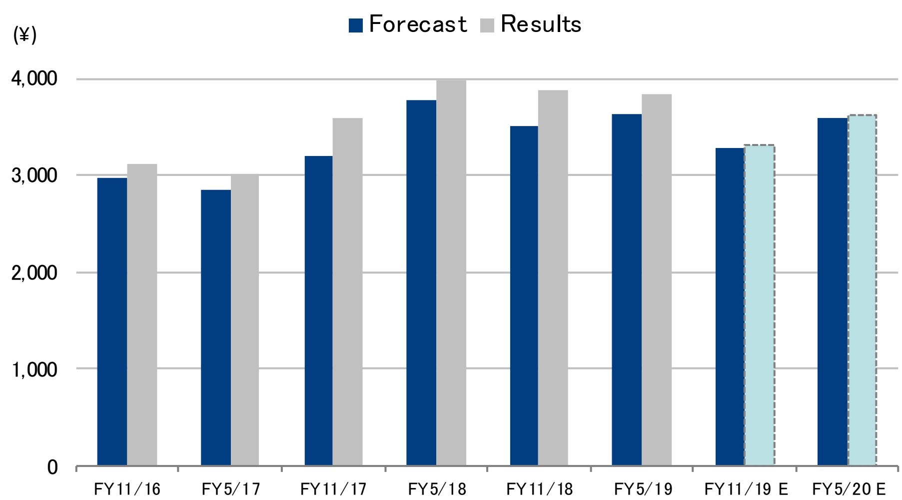
(¥mn)

	FY5/19		FY11/19		FY5/20		FY11/20	
	Results	vs. FY11/18	Forecast	vs. FY5/19	Forecast	vs. FY11/19	Forecast	vs. FY5/20
Operating revenue	1,517	1.6%	1,459	-3.8%	1,506	3.2%	1,459	-3.2%
Operating income	557	0.4%	481	-13.6%	523	8.6%	472	-9.7%
Ordinary income	484	-0.8%	413	-14.7%	455	10.2%	408	-10.3%
Net income	483	-0.8%	412	-14.7%	455	10.3%	408	-10.3%
Dividend per unit (¥)	3,826	-1.2%	3,307	-13.6%	3,612	9.2%	3,231	-10.5%

Note: the dividend per unit includes the return of capital.
Source: Prepared by FISCO from the Company's financial results

The reason why revenue, profit, and dividend forecasts are higher for the fiscal periods ending in May than in those ending in November is that at the power facilities FIT currently owns, more power is generated in fiscal periods ending in May than in fiscal periods ending in November. Also, in looking at the dividend forecasts and actual dividends since FY11/16, actual dividends have consistently exceeded forecasts. Going forward, it seems likely that the results will surpass the forecasts in conjunction with actual power generation surpassing forecasted power generation and the continuous new acquisitions of power facilities. As we have already seen, 75.5% of TIF's investment portfolio is located in the Kanto area, where the weather is stable. Compared to other investment corporations who own many power plants in Kyushu and Hokkaido, which are susceptible to the impacts of typhoons and snow, actual power generation tends to exceed the forecast, and as a result, the actual dividends are surpassing forecasts.

Dividends forecast and results



Note: FY11/19 and FY5/20 show the previous forecast and the new forecast
Source: Prepared by FISCO from the Company's results briefing materials

Growth strategy

TIF will continue to grow, including by utilizing the sponsor's pipeline

1. External growth strategy

In the medium- to long-term, TIF will be able to grow profits (external growth) through benefiting from the management expertise that its sponsor, Takara Leben, has cultivated in its solar power generation business as a whole, and also from new acquisitions of power facilities that utilize the independent expertise of Takara Asset Management.

First, TIF will be able to utilize the various types of support it receives from its sponsor to acquire power facilities in the future, which can be said will contribute to its medium- to long-term growth. In other words, TIF is able to aim to expand its power facilities based on the first refusal right granted to it from the sponsor. As of the end of June 2019, the sponsor had developed assets for 103.9MW, and assets under development for 44.5MW. Further, by the end of March 2021, it is aiming for 250MW, which corresponds to 3.5 times TIF's current power generation of 71.9MW. With the addition of acquisitions from Takara Asset Management's independent route, it can be said that its growth potential is enormous.

Also, through its solar power generation business, the sponsor has relations with and a network of third parties, including other companies that manage solar power generation businesses, fund management companies, and the businesses of individuals. TIF is also able to receive information acquired through this network on the sales of facilities owned by third parties, and it is considered that this will contribute to its external growth in the future.

Further, Takara Asset Management intends to expand its independent information network outside of the Takara Leben Group and to collection information on assets. Based on this asset information, TIF will also acquire solar power generation facilities from third parties outside of the Takara Leben Group (including acquisitions through secondary transactions, such as for already operational solar power generation facilities). In fact, it seems that the number of proposals being brought to Takara Asset Management is rapidly increasing.

External Growth

Acquisition opportunity from the sponsor's pipeline

As of end of June 2019

Operating solar power facilities	103.9MW
Under consturction	44.5MW

The sponsor expects to operate total of 250MW of power facilities before the end of March 2021

We hold First Refusal Right for all sponsor's owned solar power facilities and future projects

External acquisitions through asset manager's network

- Asset Management Company holds its own network to collect Information of solar power facilities transaction from external markets
- Diversified renewable energy power generation facilities, including solar power, wind power and biomass

Source: The Company's results briefing materials

2. Internal growth strategy

TIF is able to grow profits, including by raising the operating rates and rent at the power facilities it already owns, and reducing management costs (internal growth).

As discussed above, TIF is aiming to stabilize revenue through the minimum guaranteed rent over a 20-year period, and as can be seen in its results up until now, there is the possibility of upside from rent linked to actual results. To realize this, TIF is carrying out repair work and capital investment in a systematic manner.

In other words, TIF is outsourcing O&M (operation and maintenance) operations for solar power generation facilities to outside contractors possessing technological know-how to appropriately inspect, repair, and replace facilities. In addition, TIF has worked with operators and O&M contractors to formulate repair plans for each individual asset, taking into consideration the status and characteristics of each asset. In principle, lessees are responsible for the expenses required for daily maintenance, management, and repairs of power generation facilities.

Internal Growth

Stable and upside potential revenue scheme through combination of 20 years-long minimum guaranteed rent and performance-linked rent

Minimum guaranteed rent based on projected amount of electricity generation + **Performance-linked rent**

(Note 1) Method of setting guaranteed minimum rent and performance-linked rent differs depending on the contents of lease agreement of each property.
(Note 2) Performance-linked rent may not be expected due to actual amount of electricity generation.

Well-planned capex (including maintenance) to maintain and improve medium- to long-term revenue

- **Outsourcing O&M (Note) of solar energy generation facilities to highly skilled third-party O&M service firms**
  (Note) stands for Operation & Maintenance
- **Developing capex (inclusive of maintenance) plans for each property.**
- **Lessees basically bear expenses for regular maintenance, management, repair, etc.**

Source: The Company's results briefing materials

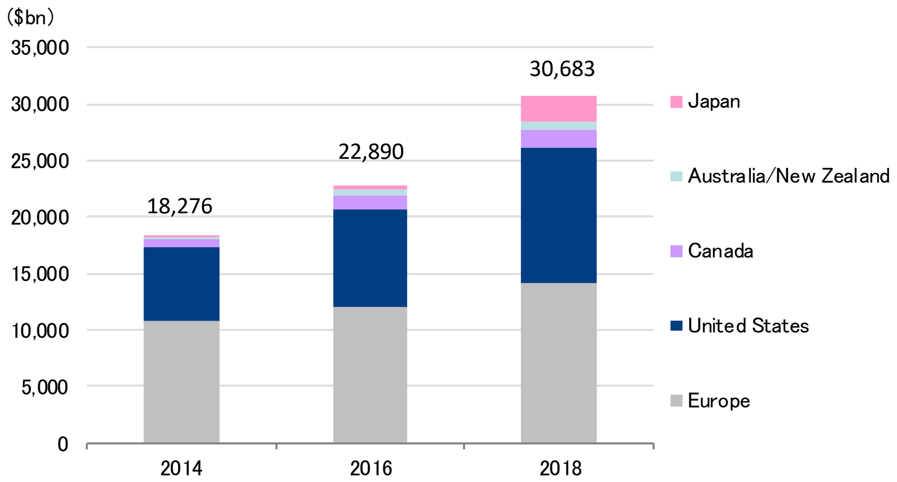
3. Measures for social contribution activities

Further, in accordance with its fundamental principle, TIF is also focusing on social contribution activities. First, on December 21, 2018, TIF and Takara Asset Management decided to donate to the Miyagi Disaster Prevention and Forest Restoration Partnership Promotion Project, which aims to utilize the regional creation support tax system (the corporate version of the hometown tax payment system) toward preventing damage and restoring disaster-damaged forests in Miyagi Prefecture. Furthermore, as a part of its social contribution and regional contribution activities, TIF is an official sponsor of the Kishu Kuchikumano Marathon held in Kamitonda Town, Wakayama Prefecture.

Also, on January 10, 2019, TIF announced it had concluded a wholesale electricity supply agreement with Minna-denryoku, Inc., for LS Shizuoka Omaezaki and LS Mie-Yokkaichi power facilities. Through its supply of electric power, Minna-denryoku focuses on a new common sense of “generating” and “consuming” electricity, and promotes measures that vitalize regional communities to develop services that realize cooperation between communities through electric power. TIF will deliver the electric power from two of its power facilities to electric power customers via Minna-denryoku, and going forward, it is expected that the framework will be expanded to include additional power facilities.

Meanwhile, ESG investment, in which investors focus on a company's environmental (E), social (S), and governance (G) initiatives when selecting companies to invest in, is becoming more emphasized around the world. The global ESG investment market has grown 68% over four years, from US$18.276tn in 2014 to US$30.683tn in 2018, with Japan's share increasing sharply from 0% to 7.1% during this time. Amid the global trend of ESG investment growth, there is ample room for growth in Japan. In this sense, TIF, which actively engages in social contribution activities, will attract attention.

Global sustainable investing assets



Source: Prepared by FISCO based on Global Sustainable Investment Review

Benchmarking

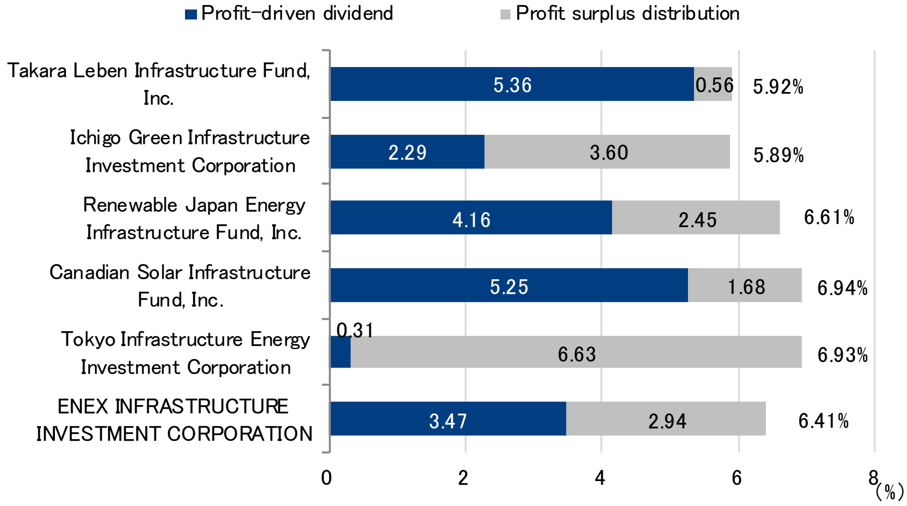
Provides an appealing dividend yield and has a high profit-driven dividend yield

TIF's policy is to return profits to unitholders twice a year, and it plans to pay high dividends each six months. The forecast dividends per unit (including return of capital) is ¥3,307 for FY11/19, ¥3,612 for FY5/20, and ¥3,231 for FY11/20. As previously stated, the reason why the dividend forecasts are higher for the fiscal periods ending in May than in November is that, based on the power facilities TIF currently owns, more power is generated in the May-ending fiscal period than in the November-ending fiscal period. When converted to an annual figure, the dividend yield is 5.92% based on the investment unit price of July 30, 2019, of ¥116,900 (calculated by dividing the total dividend for FY11/19 and FY5/20 by the investment unit price). TIF has so far paid dividends above the initial forecast in every fiscal period, so going forward also, there are major expectations that the dividend will increase above the forecasts.

Rather than returning more money to unitholders than was earned in profits (distribution in excess of profits), TIF prioritizes increasing dividends based on net income (profit-driven dividends). In other words, TIF emphasizes curbing the return of capital and promoting efficient reinvestment. As result, TIF's dividend yield as of July 30, 2019 was 5.36%, which was the highest among the six listed infrastructure investment funds, greatly exceeding the average of 3.47%. For investors, the distribution exceeding profit is simply giving the money they invested back to them, and most investors want an investment corporation's profit-based dividends to be high. Furthermore, TIF received an A- (A minus: stable) rating from JCR, which is likely to give investors a sense of security. Attracted by the above, as of May 31, 2019, 40 financial institutions (including financial instruments exchange service providers) own 15.5% of TIF's investment units, which is far above the average of 8.3% for other investment corporations.

As described in TIF's basic policy, infrastructure fund activities lead to social contributions. In the future, alongside the deepening of investors' understanding about infrastructure funds, and in a situation in which for the time being, the low interest rate environment is forecast to continue, at FISCO we think that TIF will attract further attention for providing an appealing level of dividend yield compared to the yields of other financial products, such as the dividend yield of TSE 1st Section listed shares, which is currently at 2.5%, and the J-REIT yield of 3.74%.

Comparison of infrastructure funds' forecast dividend yields



Note: As of July 30, 2019, forecast dividend yields for the upcoming year
Source: Prepared by FISCO based on infrastructure funds' materials

FISCO

Disclaimer

■ For inquiry, please contact: ■
FISCO Ltd.
5-11-9 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (Financial information Dept.)
Email: support@fisco.co.jp