

Canadian Solar Inc. (CSIQ)

\$19.23 (As of 06/04/20)

Price Target (6-12 Months): **\$20.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/11/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: A

Growth: C

Momentum: F

Summary

Canadian Solar first-quarter 2020 earnings and revenues surpassed the respective Zacks Consensus Estimate. The company has a strong project pipeline and continues to identify attractive development opportunities to redeploy capital and ensure future success. Of late, it has expanded its global late-stage project pipeline into nations like Argentina, Australia and South Korea. However, policy changes made in China, during 2019, are anticipated to be detrimental for stocks like Canadian Solar, as it has increased commitments to ship modules and construct new projects. Moreover, as a result of the prevailing market uncertainty, courtesy of the coronavirus outbreak, the company expects to witness poor results in the second half of 2020. Its shares have underperformed the industry in the past year.

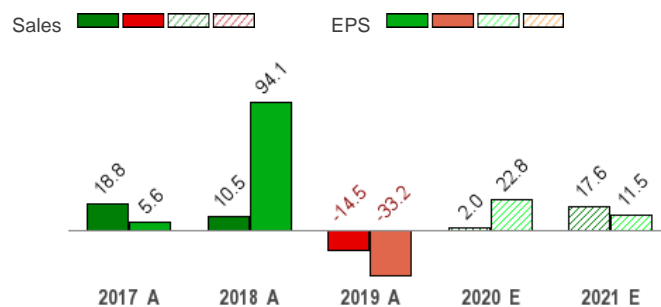
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|--------------------------------|
| 52 Week High-Low | \$25.35 - \$12.00 |
| 20 Day Average Volume (sh) | 997,754 |
| Market Cap | \$1.1 B |
| YTD Price Change | -13.0% |
| Beta | 1.59 |
| Dividend / Div Yld | \$0.00 / 0.0% |
| Industry | Solar |
| Zacks Industry Rank | Top 18% (46 out of 253) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|-------------------|
| Last EPS Surprise | 20.7% |
| Last Sales Surprise | 3.9% |
| EPS F1 Est- 4 week change | -22.9% |
| Expected Report Date | 08/20/2020 |
| Earnings ESP | 0.0% |
| P/E TTM | 5.0 |
| P/E F1 | 7.2 |
| PEG F1 | 0.2 |
| P/S TTM | 0.3 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|-------|---------|---------|---------|---------|
| 2021 | 699 E | 993 E | 1,069 E | 1,238 E | 3,838 E |
| 2020 | 826 A | 652 E | 786 E | 1,000 E | 3,264 E |
| 2019 | 485 A | 1,036 A | 760 A | 920 A | 3,201 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|-----------|-----------|----------|----------|----------|
| 2021 | \$0.40 E | \$1.13 E | \$0.95 E | \$1.24 E | \$3.00 E |
| 2020 | \$1.40 A | -\$0.01 E | \$0.17 E | \$0.69 E | \$2.69 E |
| 2019 | -\$0.29 A | \$0.77 A | \$0.66 A | \$1.04 A | \$2.19 A |

*Quarterly figures may not add up to annual.

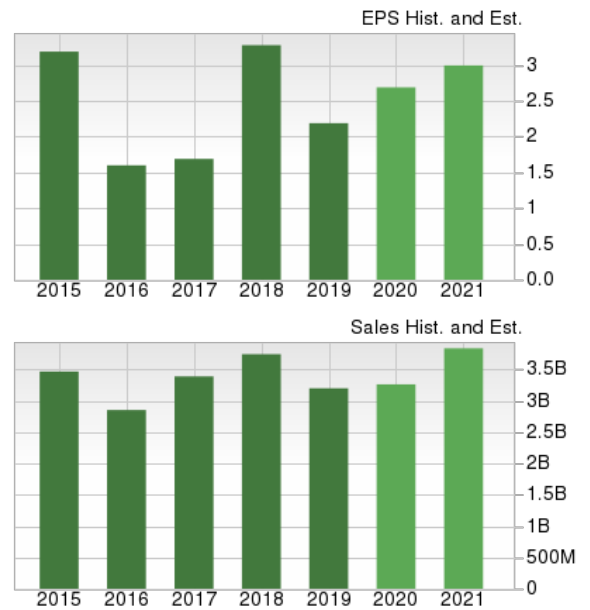
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/04/2020. The reports text is as of 06/05/2020.

Overview

Ontario, Canada-based Canadian Solar Inc. (CSIQ) is a vertically integrated manufacturer of silicon ingots, wafers, cells, solar modules (panels) and custom-designed solar power applications. The company designs, manufactures and delivers solar products and solar system solutions for both on-grid and off-grid use to customers worldwide. The company was incorporated in Canada in 2001. Subsequently, in Nov 2006, the company came out with its maiden public offering.

Canadian Solar's production facilities in Canada, China, Indonesia, Vietnam and Brazil are structured for the manufacturing of ingots, wafers, solar cells, solar PV modules, solar power systems and specialized solar products. A huge number of the company's manufacturing facilities are located in Canada and China.

Canadian Solar operates through eight wholly-owned manufacturing subsidiaries. The company sells its products to customers worldwide, with operations spread across Australia, Brazil, China, Germany, Japan, South Korea, South Africa, Spain, Singapore, Turkey, the United Arab Emirates and the United States. The company has active solar projects in the states of California, North Carolina and Massachusetts. The company also implements solar power development projects, primarily in conjunction with government organizations, to provide solar power generation in rural areas of China.



Reasons To Buy:

- ▲ Canadian Solar caters to a geographically-diverse customer base spread across key markets in the United States, China, Japan, the U.K. and Canada as well as emerging markets in Brazil, India, Mexico, Italy, Germany, South Africa and the Middle East. Of late, the company has further expanded its global late-stage project pipeline into nations like Argentina, Australia and South Korea, considering these as the markets where the next phase of industrial growth is expected. Canadian Solar has one of the world's largest utility-scale solar project development platforms, with a track record of bringing into commercial operation over 5.6 GWp of solar power plants across six continents, as of Mar 31, 2020. Impressively, during the first quarter of 2020, the company shipped around 2,214MW of solar modules globally, which increased 40.6% on a year-over-year basis. This surely reflects the expanding global footprint of the company. Notably, revenues earned from solar module shipments enable the company to further recycle capital into attractive project opportunities.
- ▲ Canadian Solar has a strong pipeline of projects and carries out various acquisitions and strategies to further consolidate its position. The company continues to identify attractive development opportunities to redeploy capital and ensure future success. At the end of first-quarter 2020, the company's utility-scale solar power plants in operation totaled 956 megawatts peak (MWp), with an estimated resale value of approximately \$830 million. The company ended the first quarter with total project pipeline of 12 GWp. Such project pipeline reflects solid growth prospects for this stock through monetization of its global, solar project assets.
- ▲ Canadian Solar's cash and cash equivalents were \$1,151 million at the end of first-quarter 2020, while its long-term debt of \$666 million as of Mar 31, 2020 was much lower than its cash reserve. This reflects a strong solvency position on the company's part, which is further evident from the sequential improvement in its financial ratios. This comes as good news amid the ongoing economic crisis created by the coronavirus pandemic as investors prefer solvent stocks in such periods.

Notably, the company's debt-to-capital ratio of 0.54 as of Mar 31, 2020 decreased sequentially from 0.56 and was also the lowest in the last four quarters. Its current ratio of 1.17 at the end of first-quarter 2020, being more than 1, indicates that the company holds sufficient cash in hand to meet its obligations. Moreover, its current ratio improved sequentially and was also the highest in the last four quarters. The company's interest coverage stands at 4.7 as of Mar 31, 2020, which improved from the prior-quarter figure of 3.2. Such impressive financial ratios of Canadian Solar make us optimistic about the company's ability to duly pay off its debt obligations.

Canadian Solar has a strong pipeline of projects spread across the globe. Its strong financial position should attract investors to choose this stock

Reasons To Sell:

▼ The Chinese government's announcement of a sudden policy makeover on Jun 1, 2019 involving a significant cut down in subsidies offered to the nation's solar projects, dealt a major blow to the solar industry worldwide. Analysts across the globe have expressed their skepticism regarding the latest policy changes through reduction in expectations for the nation's solar projects. Asia Europe Clean Energy (Solar) Advisory (AECEA) lowered its forecast for China's solar capacity addition for 2018 from 40-45 GW to 30-35 GW in response to these policy changes. This policy change is anticipated to be detrimental for international solar stocks like Canadian Solar, as it has increased commitments to ship modules and construct new projects in China.

Unfavorable policy makeover by the Chinese government and COVID-19 impact on the stock remains cause of concern

▼ Although COVID-19's impact on the demand for Canadian Solar's products and services was limited in the first quarter, given the prevailing market uncertainty, it expects to witness poor results in the second half of 2020. Regionally, the United States and the Latin America market have been the most volatile. In the United States, the biggest impact has been on reduction in the availability of tax equity financing and increase in cost of capital for certain project buyers. This sets up potential delays in the company's 2020 project sales. In Latin America, the company observed sharp depreciation of local currency, which prompted the local market to delay purchases and installations of U.S. dollar priced solar module. Moreover, the company was affected by manufacturing disruptions in China.

Since the duration and severity of the coronavirus outbreak still remain unclear, analysts anticipate global demand for solar equipment to decline for the first time in 20 years in 2020. This comes as a disappointing news for module manufacturers like Canadian Solar. Supply side capacity is expected to grow, which will lead to additional average selling price pressure, which in turn might impact this stock's operating results.

▼ The decision of U.S. President Donald Trump to impose punitive tariffs on goods imported from China have been weighing heavily on prominent solar players like Canadian Solar. Both China and the United States have been engaged in a trade dispute for over a year, imposing duties on billions of dollars' worth of goods from one another. Tensions, however, escalated after the Trump administration implemented 10% tariffs on \$300 billion worth of Chinese imports starting Sep 1, 2019. If trade tensions increase among the United States, China and other countries, it may have a material adverse effect on Canadian Solar's international operations.

Last Earnings Report

Canadian Solar Q1 Earnings Top, Revenues Rise Y/Y

Canadian Solar reported first-quarter 2020 adjusted earnings of \$1.40 per share, which surpassed the Zacks Consensus Estimate of \$1.16 by 20.7%.

Including one-time items, GAAP earnings came in at \$1.84 per share in the quarter under review against loss of 29 cents in first-quarter 2019.

Total Revenues

This solar cell manufacturer's total revenues of \$825.6 million beat the Zacks Consensus Estimate of \$795 million by 3.9%. The top line also improved a solid 70.3% from \$484.7 million reported in first-quarter 2019. The top line exceeded the guidance of \$780-\$810 million.

The year-over-year improvement is attributable to solid module shipments and project sales.

Operational Update

Solar module shipments in the quarter totaled 2,214 megawatts (MW), which exceeded the mid-point of the guided range of 2.15-2.25 gigawatts (GW). This includes 253 MW for the company's utility-scale solar power projects. Module shipments increased 40.6% on a year-over-year basis.

Gross margin was 27% in the quarter, compared with 22.2% in the year-ago quarter. The upside was driven by increased contribution of higher margin project sales.

Total operating expenses were \$109.8 million, up 8.9% year over year. The increase in operating costs in the reported quarter was due to higher general and administrative expenses as well as selling expenses.

Interest expenses were \$19 million, down from \$21.7 million recorded in the year-ago period.

Financial Update

As of Mar 31, 2020, cash and cash equivalents totaled \$618.6 million, down from \$668.7 million on Dec 31, 2019.

Long-term borrowings as of Mar 31, 2020 were \$665.8 million, up from \$619.5 million on Dec 31, 2019.

Guidance

For second-quarter 2020, Canadian Solar expects shipments in the range of 2.5-2.7 GW. This guidance includes approximately 200 MW of shipments to its utility-scale solar power projects that may not be recognized as revenues in the second quarter. Total revenues are projected within \$630-\$680 million, while gross margin is expected in the band of 18.5-20.5%.

The Zacks Consensus Estimate for the company's second-quarter revenues is pegged at \$794.7 million, higher than the guided range.

For 2020, Canadian Solar still expects total module shipments in the range of 10-12 GW. However, in light of the uncertainty with respect to business conditions in the second half of 2020 due to COVID-19, Canadian Solar withdrew its earlier announced 2020 annual revenue guidance.

Quarter Ending **03/2020**

| Report Date | May 28, 2020 |
|------------------|---------------|
| Sales Surprise | 3.90% |
| EPS Surprise | 20.69% |
| Quarterly EPS | 1.40 |
| Annual EPS (TTM) | 3.87 |

Recent News

On **Mar 12, 2020**, Canadian Solar announced that its subsidiary Canadian Solar Australia has signed a power purchase agreement (PPA) with Amazon. The solar power will be supplied from the Company's 146 MWp/110 MWac Gunnedah solar farm, which will reach commercial operation by 2021. The solar farm will utilize Canadian Solar's BiKu bifacial modules.

The agreement with Amazon is Canadian Solar's first PPA in New South Wales and marks its strategic entry into the large Australian Consumer and Industrial PPA market.

On **Mar 9, 2020**, Canadian Solar announced that it has signed a PPA contract with Techgen, S.A. de C.V., an affiliate of Ternium, S.A., and Tenaris, S.A.

The PPA contract has a 15-year term and will allow Canadian Solar to finance and build a 103 MWp solar power project located in Ojocaliente Municipality, Zacatecas State, Mexico. The solar plant will use Canadian Solar high efficiency modules and is expected to start operations in 2021.

Valuation

Canadian Solar's shares are down 13% in the year-to-date period and down 9.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oils-Energy sector are down 28.3% and 30.2% respectively in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 34.2% whereas the sector is down 29.5%.

The S&P 500 index is down 2.4% in the year-to-date period and 11.9% in the past year.

The stock is currently trading at 0.3X of forward 12-month sales, which compares to 2X for the Zacks sub-industry, 0.8X for the Zacks sector and 3.5 X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.6X and as low as 0.2X, with a 5-year median of 0.3X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$20 price target reflects 0.3X forward 12-month sales.

The table below shows summary valuation data for CSIQ

| Valuation Multiples - CSIQ | | | | | |
|----------------------------|---------------|-------|--------------|--------|---------|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| P/S F12M | Current | 0.32 | 1.97 | 0.79 | 3.51 |
| | 5-Year High | 0.59 | 1.97 | 1.45 | 3.51 |
| | 5-Year Low | 0.16 | 0.57 | 0.58 | 2.53 |
| | 5-Year Median | 0.26 | 1 | 0.99 | 3.02 |
| P/B TTM | Current | 0.76 | 1.27 | 1.14 | 4.27 |
| | 5-Year High | 2.11 | 1.64 | 1.49 | 4.56 |
| | 5-Year Low | 0.55 | 0.95 | 0.92 | 2.83 |
| | 5-Year Median | 0.9 | 1.27 | 1.18 | 3.66 |

As of 06/04/2020

Industry Analysis Zacks Industry Rank: Top 18% (46 out of 253)



Top Peers

| Company (Ticker) | Rec | Rank |
|--|---------|------|
| Enphase Energy, Inc. (ENPH) | Neutral | 2 |
| First Solar, Inc. (FSLR) | Neutral | 3 |
| JinkoSolar Holding Company Limited (JKS) | Neutral | 4 |
| Sunrun Inc. (RUN) | Neutral | 3 |
| SolarEdge Technologies, Inc. (SEDG) | Neutral | 3 |
| Renesola Ltd. (SOL) | Neutral | 2 |
| SunPower Corporation (SPWR) | Neutral | 3 |
| Vivint Solar, Inc. (VSLR) | Neutral | 3 |

| Industry Comparison Industry: Solar | | | | Industry Peers | | |
|-------------------------------------|----------|------------|-----------|----------------|-----------|-----------|
| | CSIQ | X Industry | S&P 500 | FSLR | JKS | SPWR |
| Zacks Recommendation (Long Term) | Neutral | - | - | Neutral | Neutral | Neutral |
| Zacks Rank (Short Term) | 2 | - | - | 3 | 4 | 3 |
| VGM Score | C | - | - | F | A | D |
| Market Cap | 1.14 B | 25.81 M | 22.58 B | 5.25 B | 766.71 M | 1.29 B |
| # of Analysts | 3 | 3.5 | 14 | 8 | 1 | 5 |
| Dividend Yield | 0.00% | 0.00% | 1.87% | 0.00% | 0.00% | 0.00% |
| Value Score | A | - | - | D | A | C |
| Cash/Price | 1.02 | 0.20 | 0.06 | 0.31 | 2.72 | 0.20 |
| EV/EBITDA | 1.58 | 0.15 | 12.93 | 36.79 | -1.85 | 12.12 |
| PEG Ratio | 0.22 | 1.40 | 3.06 | 1.66 | 0.28 | NA |
| Price/Book (P/B) | 0.76 | 1.37 | 3.09 | 1.02 | 0.43 | 64.23 |
| Price/Cash Flow (P/CF) | 3.91 | 10.11 | 12.17 | 14.42 | 2.79 | 116.06 |
| P/E (F1) | 7.15 | 26.68 | 22.17 | 18.32 | 5.58 | NA |
| Price/Sales (P/S) | 0.32 | 1.29 | 2.41 | 1.72 | 0.18 | 0.66 |
| Earnings Yield | 13.99% | -1.52% | 4.27% | 5.46% | 17.91% | -10.01% |
| Debt/Equity | 0.45 | 0.20 | 0.76 | 0.08 | 0.23 | 43.99 |
| Cash Flow (\$/share) | 4.92 | -0.02 | 7.01 | 3.44 | 6.24 | 0.07 |
| Growth Score | C | - | - | D | A | C |
| Hist. EPS Growth (3-5 yrs) | 2.46% | -24.55% | 10.87% | -33.03% | -24.55% | NA |
| Proj. EPS Growth (F1/F0) | 22.83% | 12.11% | -10.79% | 83.03% | 11.83% | -162.76% |
| Curr. Cash Flow Growth | -11.15% | 23.77% | 5.48% | 31.84% | 49.75% | 209.28% |
| Hist. Cash Flow Growth (3-5 yrs) | -1.95% | 10.04% | 8.55% | -10.06% | 15.10% | -47.08% |
| Current Ratio | 1.17 | 1.27 | 1.29 | 3.75 | 1.01 | 1.45 |
| Debt/Capital | 30.84% | 22.17% | 44.75% | 7.03% | 18.89% | 97.78% |
| Net Margin | 8.45% | -6.17% | 10.59% | 1.42% | 2.99% | 5.62% |
| Return on Equity | 16.69% | -12.15% | 16.26% | 6.13% | 8.49% | NA |
| Sales/Assets | 0.67 | 0.59 | 0.55 | 0.43 | 0.67 | 0.98 |
| Proj. Sales Growth (F1/F0) | 1.97% | 0.00% | -2.61% | -12.78% | 3.81% | -8.29% |
| Momentum Score | F | - | - | D | B | D |
| Daily Price Chg | 0.73% | 0.00% | -0.08% | 0.22% | 3.32% | -2.44% |
| 1 Week Price Chg | 3.30% | 3.14% | 4.60% | 7.25% | 5.05% | 7.52% |
| 4 Week Price Chg | 6.30% | 5.19% | 12.07% | 11.08% | 9.42% | 4.55% |
| 12 Week Price Chg | 18.12% | 13.15% | 25.17% | 35.69% | -2.19% | 50.00% |
| 52 Week Price Chg | -9.34% | -15.27% | 0.34% | -19.23% | -23.53% | -9.10% |
| 20 Day Average Volume | 997,754 | 276,994 | 2,537,324 | 1,277,690 | 1,009,297 | 3,123,616 |
| (F1) EPS Est 1 week change | -6.25% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| (F1) EPS Est 4 week change | -22.95% | -13.51% | -0.08% | -7.35% | 0.00% | -159.36% |
| (F1) EPS Est 12 week change | -26.15% | -38.26% | -16.19% | -19.96% | -38.70% | -436.00% |
| (Q1) EPS Est Mthly Chg | -104.60% | -7.19% | 0.00% | -24.93% | 0.00% | -182.99% |

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

| | |
|----------------|---|
| Value Score | A |
| Growth Score | C |
| Momentum Score | F |
| VGM Score | C |

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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