

## Canadian Solar Inc. (CSIQ)

**\$16.37** (As of 04/06/20)

Price Target (6-12 Months): **\$17.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 02/11/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:C

Value: A

Growth: D

Momentum: F

## Summary

Canadian Solar has a strong project pipeline and carries out various acquisitions to further consolidate its position. It 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, considering these as the markets where the next phase of industrial growth is expected. However, policy changes made in China, during 2019, is anticipated to be detrimental for stocks like Canadian Solar, as it has increased commitments to ship modules and construct new projects. The virus outbreak has put pressure on Chinese solar market, particularly the supply. The extended shutdown of factories is expected to have slowed down production rate. Its shares have underperformed the industry in the past year.

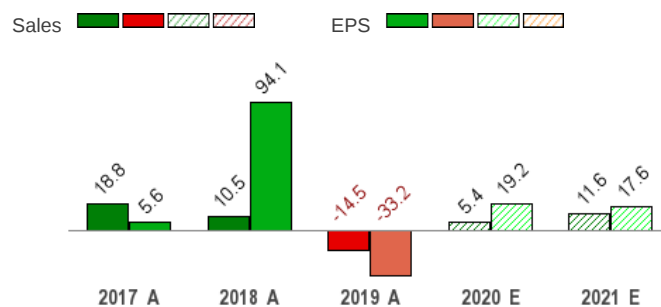
## Price, Consensus & Surprise



## Data Overview

|                            |                         |
|----------------------------|-------------------------|
| 52 Week High-Low           | \$25.35 - \$12.00       |
| 20 Day Average Volume (sh) | 1,175,669               |
| Market Cap                 | \$973.0 M               |
| YTD Price Change           | -25.9%                  |
| Beta                       | 1.69                    |
| Dividend / Div Yld         | \$0.00 / 0.0%           |
| Industry                   | <a href="#">Solar</a>   |
| Zacks Industry Rank        | Top 30% (75 out of 253) |

## Sales and EPS Growth Rates (Y/Y %)



|                           |            |
|---------------------------|------------|
| Last EPS Surprise         | 89.1%      |
| Last Sales Surprise       | 5.8%       |
| EPS F1 Est- 4 week change | -14.5%     |
| Expected Report Date      | 06/04/2020 |
| Earnings ESP              | 0.0%       |

## Sales Estimates (millions of \$)

|      | Q1    | Q2      | Q3      | Q4      | Annual* |
|------|-------|---------|---------|---------|---------|
| 2021 | 698 E | 942 E   | 1,003 E | 1,079 E | 3,768 E |
| 2020 | 795 E | 687 E   | 925 E   | 969 E   | 3,375 E |
| 2019 | 485 A | 1,036 A | 760 A   | 920 A   | 3,201 A |

## EPS Estimates

|      | Q1        | Q2       | Q3       | Q4       | Annual*  |
|------|-----------|----------|----------|----------|----------|
| 2021 | \$0.48 E  | \$1.17 E | \$0.86 E | \$1.00 E | \$3.07 E |
| 2020 | \$1.16 E  | \$0.15 E | \$0.87 E | \$0.44 E | \$2.61 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.

|         |     |
|---------|-----|
| P/E TTM | 7.5 |
| P/E F1  | 6.3 |
| PEG F1  | 0.2 |
| P/S TTM | 0.3 |

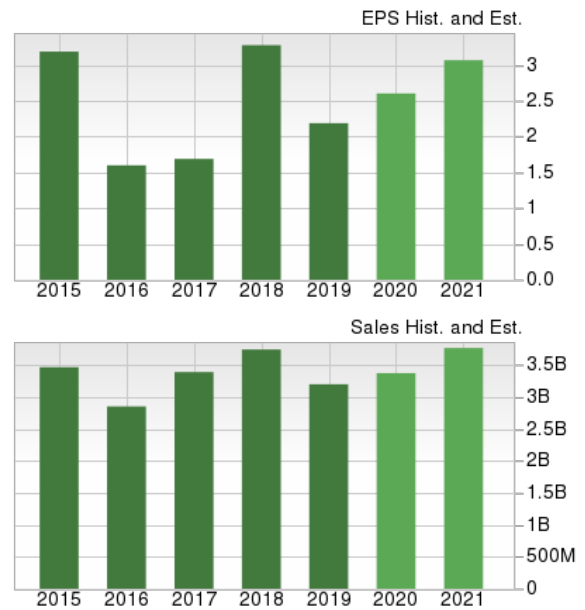
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/06/2020. The reports text is as of 04/07/2020.

## 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.



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## Reasons To Buy:

- ▲ The company 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, Canadian Solar 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.

Impressively, during the fourth quarter of 2019, the company shipped around 2,474 MW of solar modules globally. This surely reflects the expanding global footprint of the company and the notable progress it made on monetization of its global, solar project assets. 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 fourth-quarter 2019, the company's utility-scale solar power plants in operation totaled 880.2 megawatts peak (MWp), with an estimated resale value of approximately \$1 billion. Moreover, the company's late-stage, utility-scale solar pipelines, including the ones under construction, increased to 3.7 GWp.
- ▲ The company is significantly expanding its footprint in North America. Notably, Canadian Solar's total solar project pipeline in North America totaled 5,232 MW at the end of January 2020. The North American portfolio also comprised 216 MW of operating solar power plants at the end of the fourth quarter. This indicates stellar growth prospects for Canadian Solar, going ahead.

Countries in the Asia-Pacific region, like Japan, China and India, are expected to be principal demand drivers of solar modules in the coming years. The company has a significant presence in this region. During February, Canadian Solar announced that it commenced construction of two solar power projects totaling 26.6 MWp in Japan. The company's project pipeline in the Asia-Pacific region totaled 676 MWp as of Jan 31, 2020. At the end of the fourth quarter, its total project pipeline in China was 410 MWp.

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## Reasons To Sell:

- ▼ The Chinese government's announcement of a sudden policy makeover on Jun 1, 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.
- ▼ At the end of fourth-quarter 2019, the company had \$1.95 billion of total debt, escalating its vulnerability to adverse economic or industry conditions. The company's long-term borrowings directly related to its utility-scale solar power projects were \$619.5 million at the end of the fourth quarter. Moreover, the company will have to dedicate a portion of its cash flow from operations to repay debt, thereby reducing the availability of cash flow to fund working capital, capital expenditures and initiatives. Such reasons may have led the company's share to underperform in the past year. The company's shares declined 15.8% in compared to the industry's 9.5% decline.
- ▼ The novel coronavirus outbreak has put pressure on China's solar market, particularly the supply. The extended shutdown implemented in factories to contain the spread of the virus is expected to have slowed down production rate. As a result, overall capacity growth in the first quarter of 2020 is widely expected to decelerate. Notably, post the outbreak, PV production capacity has been hit in Jiangsu province, where more than 60% of China's solar panels are made, according to the Gofa Institute, a wing of the government's National Energy Administration.

Stiff competition from cheaper alternatives and exposure to foreign exchange risks are added concerns.

This has made us skeptical that the shortage of material supply and logistical limitations led by closed borders may shoot up the price of modules worldwide, which otherwise was plummeting rapidly. The shortage is also expected to disrupt delivery schedules and in turn, push back delivery time. Consequently, lower project sales can be expected in the first half of 2019, which in turn may weigh on the stock's growth.

## Last Earnings Report

### Canadian Solar Q4 Earnings Beat Estimates, Fall Y/Y

Canadian Solar reported adjusted fourth-quarter 2019 earnings of \$1.04 per share, which surpassed the Zacks Consensus Estimate of 55 cents by 89.1%. The figure however declined 35.4% from the year-ago level.

Including one-time items, GAAP earnings came in at \$1.12 per share in the quarter under review compared with \$1.81 in fourth-quarter 2018.

For 2019, the company reported adjusted earnings of \$2.19 per share, which missed the Zacks Consensus Estimate of \$2.27. The full-year bottom line also declined significantly from the year-ago figure of \$3.28.

Quarter Ending 12/2019

| Report Date      | Mar 26, 2020 |
|------------------|--------------|
| Sales Surprise   | 5.79%        |
| EPS Surprise     | 89.09%       |
| Quarterly EPS    | 1.04         |
| Annual EPS (TTM) | 2.18         |

### Total Revenues

This solar cell manufacturer's total revenues of \$919.7 million beat the Zacks Consensus Estimate of \$869 million by 5.8%. The top line also rose 2.1% from \$901 million reported in fourth-quarter 2018. The top line also exceeded the guidance of \$850-\$880 million.

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

For 2019, the company reported revenues of \$3.20 billion, exceeding the Zacks Consensus Estimate of \$3.15 billion by a whisker. The top line however declined 14.5% from \$3.74 billion reported in 2018. Nevertheless, the full-year top line exceeded the company's guidance of \$3.13-\$3.16 billion.

### Operational Update

Solar module shipments in the quarter totaled 2,474 megawatts (MW), which exceeded the guided range of 2,300-2,400 MW. This included 295 MW for the company's utility-scale solar power projects

Gross margin was 23% in the quarter (excluding the benefits of U.S. anti-dumping and countervailing duty).

Total operating expenses were \$118.1 million, down 12.4% year over year. The decrease in operating costs in the reported quarter was due to lower general and administrative expenses as well as research and development expenses.

Interest expenses were \$19.7 million, down from \$23 million recorded in the year-ago period.

### Financial Update

As of Dec 31, 2019, cash and cash equivalents totaled \$668.7 million, up from \$444.3 million on Dec 31, 2018.

Long-term borrowings as of Dec 31, 2019 were \$619.5 million, up from \$393.6 million on Dec 31, 2018.

### Guidance

For first-quarter 2020, Canadian Solar expects shipments in the range of 2.15-2.25 GW. This guidance includes approximately 250 MW of shipments to its utility-scale solar power projects that may not be recognized as revenues in the first quarter. Total revenues are projected within \$780-\$810 million, while gross margin is expected in the band of 26-28%.

The Zacks Consensus Estimate for the company's first-quarter revenues is pegged at \$939 million, higher than the company guided range.

For 2020, Canadian Solar expects total module shipments in the range of 10-12 GW. Total revenues for the year are expected in the range of \$3.4-\$3.9 billion. The Zacks Consensus Estimate for the company's first-quarter earnings is pegged at \$3.99 billion, higher than the company guided range.

## 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.

On **Mar 6, 2020**, Canadian Solar announced its technology team set a world record of 23.81% conversion efficiency for n-type large area multi-crystalline silicon solar cell. The record-setting N-type P5 cell conversion efficiency was recently tested and certified by Germany's Institute für Solarenergieforschung GmbH (ISFH). This is the third time within a span of nine months that the company has set multi-crystalline solar cell conversion efficiency world record.

On **Feb 19, 2020**, Canadian Solar announced it has commenced construction on two solar photovoltaic (PV) power projects in Japan.

The first is a 13.6 MWp project in the Ibaraki Prefecture. The project will be powered by 33,098 pieces of Canadian Solar's high-efficiency MaxPower modules. Once in operation, the plant is expected to generate approximately 15,901 MWh of clean, reliable solar electricity each year, which will be purchased by Tokyo Electric Power Co., Inc. under a 20-year feed-in-tariff contract at the rate of ¥32.0 (\$0.29) per kWh. The company expects the project to reach commercial operation by mid-2021.

On **Feb 18, 2020**, Canadian Solar announced that it has completed the sale of Yamaguchi Shin Mine, a 56.3 MWp operational solar power plant in the Yamaguchi Prefecture in Japan.

Hana Financial Investment, a subsidiary of Hana Financial Group, acquired the solar power plant for an enterprise value of approximately \$205 million. Canadian Solar expects to recognize the revenue from the transaction in the first quarter of 2020.

On **Feb. 6, 2020**, Canadian Solar declared the acquisition of a 47.5 MWp portfolio of solar projects under development in Chile. These projects will become operational in two different stages, beginning from the fourth quarter of 2020.

On **Feb. 5, 2020**, Canadian Solar announced that it has signed a multi-year module supply agreement with Lightsource BP to deliver 1.2 GW of high efficiency polycrystalline solar modules for projects in the United States and Australia.

## Valuation

Canadian Solar's shares are down 25.9% in the year-to-date period and down 15.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oils-Energy sector are down 25.2% and 45.1% respectively in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 9.5% whereas the sector is down 51.5%.

The S&P 500 index is down 22.6% in the year-to-date period and down 14.1% in the past year.

The stock is currently trading at 0.2X of forward 12-month sales, which compares to 1.0X for the Zacks sub-industry, 0.6X for the Zacks sector and 2.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.7X 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 \$17 price target reflects 0.25X 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       | 0.24  | 1.08         | 0.6    | 2.72    |
|                            | 5-Year High   | 0.7   | 1.66         | 1.45   | 3.44    |
|                            | 5-Year Low    | 0.16  | 0.57         | 0.58   | 2.54    |
|                            | 5-Year Median | 0.26  | 1            | 0.99   | 3       |
| P/B F12M                   | Current       | 0.68  | 1.57         | 0.68   | 3.31    |
|                            | 5-Year High   | 2.11  | 3.06         | 1.6    | 4.55    |
|                            | 5-Year Low    | 0.55  | 0.6          | 0.51   | 2.84    |
|                            | 5-Year Median | 0.91  | 1.3          | 1.31   | 3.63    |

As of 04/06/2020



## Industry Analysis Zacks Industry Rank: Top 30% (75 out of 253)



## Top Peers

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

| Industry Comparison Industry: Solar |              |            |           | Industry Peers |                  |              |
|-------------------------------------|--------------|------------|-----------|----------------|------------------|--------------|
|                                     | CSIQ Neutral | X Industry | S&P 500   | FSLR Neutral   | JKS Underperform | SPWR Neutral |
| <b>VGM Score</b>                    | <b>C</b>     | -          | -         | <b>A</b>       | <b>C</b>         | <b>D</b>     |
| Market Cap                          | 972.98 M     | 34.08 M    | 18.06 B   | 3.89 B         | 655.79 M         | 934.59 M     |
| # of Analysts                       | 2            | 3          | 13        | 8              | 1                | 4            |
| Dividend Yield                      | 0.00%        | 0.00%      | 2.34%     | 0.00%          | 0.00%            | 0.00%        |
| <b>Value Score</b>                  | <b>A</b>     | -          | -         | <b>A</b>       | <b>C</b>         | <b>B</b>     |
| Cash/Price                          | 1.36         | 0.34       | 0.06      | 0.60           | 3.05             | 0.57         |
| EV/EBITDA                           | 0.73         | 0.31       | 11.15     | 19.40          | -3.61            | 9.15         |
| PEG Ratio                           | 0.20         | 0.65       | 1.87      | 1.04           | 0.23             | NA           |
| Price/Book (P/B)                    | 0.68         | 0.88       | 2.46      | 0.76           | 0.37             | 43.40        |
| Price/Cash Flow (P/CF)              | 2.89         | 5.52       | 9.59      | 10.68          | 2.32             | 84.86        |
| P/E (F1)                            | 6.30         | 12.07      | 15.66     | 11.45          | 4.61             | NA           |
| Price/Sales (P/S)                   | 0.30         | 1.07       | 1.92      | 1.27           | 0.15             | 0.50         |
| Earnings Yield                      | 15.94%       | 1.49%      | 6.30%     | 8.73%          | 21.68%           | -0.54%       |
| Debt/Equity                         | 0.43         | 0.21       | 0.70      | 0.09           | 0.23             | 45.59        |
| Cash Flow (\$/share)                | 5.67         | -0.02      | 7.01      | 3.44           | 6.43             | 0.07         |
| <b>Growth Score</b>                 | <b>D</b>     | -          | -         | <b>A</b>       | <b>C</b>         | <b>C</b>     |
| Hist. EPS Growth (3-5 yrs)          | -6.88%       | -20.01%    | 10.92%    | -33.70%        | -24.55%          | NA           |
| Proj. EPS Growth (F1/F0)            | 18.95%       | 53.66%     | 0.33%     | 116.81%        | 15.77%           | 91.38%       |
| Curr. Cash Flow Growth              | 106.87%      | 28.88%     | 5.93%     | 31.84%         | 54.40%           | 209.28%      |
| Hist. Cash Flow Growth (3-5 yrs)    | 23.91%       | 10.04%     | 8.55%     | -10.06%        | 6.91%            | -47.08%      |
| Current Ratio                       | 1.05         | 1.22       | 1.24      | 2.73           | 1.01             | 1.54         |
| Debt/Capital                        | 30.30%       | 26.34%     | 42.36%    | 8.18%          | 18.89%           | 97.85%       |
| Net Margin                          | 5.36%        | -7.41%     | 11.64%    | -3.75%         | 2.99%            | 1.19%        |
| Return on Equity                    | 9.82%        | -15.23%    | 16.74%    | 3.06%          | 8.49%            | NA           |
| Sales/Assets                        | 0.61         | 0.59       | 0.54      | 0.42           | 0.67             | 0.90         |
| Proj. Sales Growth (F1/F0)          | 5.45%        | 1.80%      | 1.00%     | -6.07%         | 3.80%            | 3.60%        |
| <b>Momentum Score</b>               | <b>F</b>     | -          | -         | <b>D</b>       | <b>B</b>         | <b>F</b>     |
| Daily Price Chg                     | 9.87%        | 3.63%      | 7.93%     | 6.89%          | 5.90%            | 17.34%       |
| 1 Week Price Chg                    | -2.49%       | -4.38%     | -4.40%    | -3.51%         | -5.25%           | -13.53%      |
| 4 Week Price Chg                    | -5.65%       | -17.01%    | -6.89%    | -6.13%         | -18.80%          | -19.33%      |
| 12 Week Price Chg                   | -29.01%      | -24.22%    | -24.81%   | -36.02%        | -35.47%          | -34.05%      |
| 52 Week Price Chg                   | -15.84%      | -24.98%    | -17.63%   | -35.62%        | -24.98%          | -27.17%      |
| 20 Day Average Volume               | 1,175,669    | 102,657    | 4,147,873 | 2,046,491      | 1,938,032        | 5,393,482    |
| (F1) EPS Est 1 week change          | 0.00%        | 0.00%      | 0.00%     | -1.16%         | 0.00%            | 0.00%        |
| (F1) EPS Est 4 week change          | -14.50%      | -9.84%     | -4.97%    | -5.19%         | -36.54%          | -36.00%      |
| (F1) EPS Est 12 week change         | -14.50%      | -10.38%    | -6.79%    | -9.90%         | -36.54%          | -10.87%      |
| (Q1) EPS Est Mthly Chg              | -85.92%      | -1.90%     | -7.32%    | 5.66%          | -80.20%          | -46.67%      |

## 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    | <b>A</b> |
| Growth Score   | <b>D</b> |
| Momentum Score | <b>F</b> |
| VGM Score      | <b>C</b> |

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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