

Canadian Solar Inc. (CSIQ)

\$23.45 (As of 01/14/20)

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

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 01/13/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: B

Summary

Canadian Solar's shares have underperformed the industry in the past one year period. Policy changes made in China, earlier this year, 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 third-quarter 2019, the company had \$1.97 billion of total debt, escalating its vulnerability to adverse economic or industry conditions. Moreover, it 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. However, Canadian Solar has a strong pipeline of projects and carries out various acquisitions and strategies to further consolidate its position.

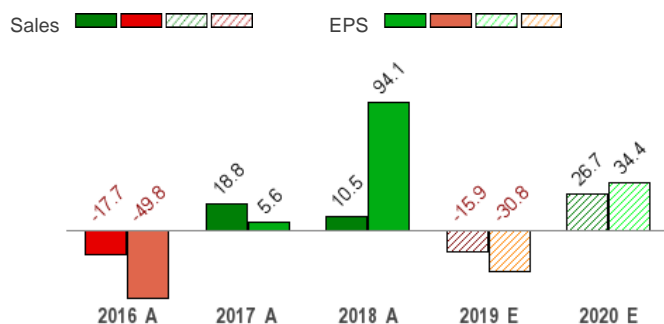
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$25.89 - \$14.50
20 Day Average Volume (sh)	644,181
Market Cap	\$1.4 B
YTD Price Change	6.1%
Beta	2.14
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Solar
Zacks Industry Rank	Bottom 25% (190 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-25.0%
Last Sales Surprise	-4.8%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	03/19/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	939 E	1,042 E	1,046 E	1,094 E	3,990 E
2019	485 A	1,036 A	760 A	869 E	3,150 E
2018	1,425 A	651 A	768 A	901 A	3,745 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.06 E	\$1.03 E	\$0.78 E	\$0.57 E	\$3.05 E
2019	-\$0.29 A	\$0.77 A	\$0.66 A	\$0.55 E	\$2.27 E
2018	\$0.72 A	\$0.26 A	\$0.96 A	\$1.61 A	\$3.28 A

*Quarterly figures may not add up to annual.

P/E TTM	8.5
P/E F1	7.7
PEG F1	0.2
P/S TTM	0.4

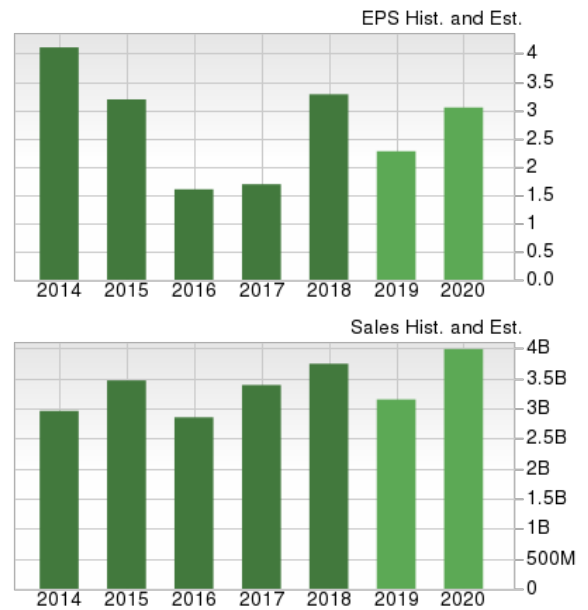
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/14/2020. The reports text is as of 01/15/2020.

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 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 third-quarter 2019, the company had \$1.97 billion of total debt, escalating its vulnerability to adverse economic or industry conditions. The company's total borrowings directly related to its utility-scale solar power projects were \$670.8 million at the end of the third 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. Consequently, the company's shares have only gained 29.1% in the past one year period compared with the industry's growth of 64.3%.
- ▼ Canadian Solar faces intense competition from manufacturers of different types of solar modules and PV systems, with respect to reliability and selling price per watt. Though the company presently has a competitive edge over its peers, the current economic scenario does not guarantee the same for the future.
- ▼ A comparative analysis of Canadian Solar's historical P/E ratio reflects a relatively gloomy picture that might be a cause for investors' concern. The stock currently has a trailing 12-month P/E ratio of 8.53. This level compares unfavorably with what the stock witnessed in the past 12 months. The ratio is much higher than the industry's negative average of 29.76.

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

Risks

- Impressively, during the third quarter of 2019, the company shipped around 2,387 MW of solar modules globally. This surely reflects the expanding global footprint of the company and the notable progress it made on the monetization of its global, solar project assets. Notably, the transactions related to the 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 third-quarter 2019, the company's utility-scale solar power plants in operation totaled 795.8 megawatts peak (MWp), with an estimated resale value of \$900 billion. Moreover, the company's late-stage, utility-scale solar pipelines, including the ones under construction, increased to 3.4 GWp.
 - The company is significantly expanding its footprint in the United States. Notably, Canadian Solar's late-stage, utility-scale solar project pipeline totaled 1,285 MW at the end of September 2019 in the United States, excluding the 100 MWac Sunflower project located in Mississippi. Its portfolio also comprised 205.9 MW of operating solar power plants at the end of the third quarter. This indicates stellar growth prospects for Canadian Solar in the country.
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Last Earnings Report

Canadian Solar Q3 Earnings & Sales Lag, Down Y/Y

Canadian Solar Inc. reported adjusted third-quarter 2019 earnings of 66 cents per share, which missed the Zacks Consensus Estimate of 88 cents by 25%. The figure also declined 31.3% from the year-ago level.

GAAP earnings came in at 96 cents per share in the quarter under review compared with \$1.04 in third-quarter 2018.

Quarter Ending **09/2019**

Report Date	Nov 12, 2019
Sales Surprise	-4.76%
EPS Surprise	-25.00%
Quarterly EPS	0.66
Annual EPS (TTM)	2.75

Total Revenues

This solar cell manufacturer's total revenues of \$759.9 million lagged the Zacks Consensus Estimate of \$798 million by 4.8%. The top line also declined 1.1% from \$768 million reported in third-quarter 2018.

The year-over-year decline was due lower revenues from the sale of solar power plants.

Operational Update

Solar module shipments in the quarter totaled 2,387 megawatts (MW), which exceeded management's guided range of 2.2-2.3 gigawatt (GW). Solar module shipments recognized in third-quarter revenues totaled 2,156 MW, improving 41.7% from 1,521 MW in the prior-year period.

Gross margin was 23% in the quarter (excluding AD and CVD benefits) compared with 25% in third-quarter 2018.

Total operating expenses were \$118.8 million, up 13.7% year over year. The increase in operating costs in the reported quarter was due to higher selling expenses, general and administrative expenses, and research and development expenses.

Interest expenses were \$19.2 million, down 7.2% from \$20.7 million recorded in the year-ago period.

Financial Update

As of Sep 30, 2019, cash and cash equivalents totaled \$526.2 million, up from \$444.3 million on Dec 31, 2018.

Long-term borrowings as of Sep 30, 2019 were \$525.9 million, up from \$393.6 million on Dec 31, 2018.

Guidance

For fourth-quarter 2019, Canadian Solar expects shipments in the range of 2.3-2.4 GW. This guidance includes approximately 190 MW of shipments to its utility-scale solar power projects that may not be recognized as revenues in the fourth quarter. Total revenues are projected within \$850-\$880 million, while gross margin is expected in the band of 19-21%.

For 2019, Canadian Solar reiterated its guidance for total module shipments in the range of 8.4-8.5 GW. Total revenues for the year are expected in the range of \$3.13-\$3.16 billion.

Recent News

On **Dec 23, 2019**, Canadian Solar announced that it has completed its first solar project in Taiwan, named Hualien Rongkai, which has a generation capacity of 1.98 megawatt peak (MWp). The project started its commercial operations from Dec 13 and is expected to generate approximately 2,505 megawatt hour (MWh) of solar electricity per year. Notably, the project is powered by 6,384 pieces of Canadian Solar modules.

The clean energy generated from this solar farm will be purchased by TaiPower Inc., under a 20-year feed-in-tariff contract, at the rate of 16 cents per kilowatt-hour (kWh).

On **Nov 15, 2019**, Canadian Solar Inc. has completed the sale of 49% interest in three solar photovoltaic projects — Horus, Tastiota and El Mayo — to Korea Electric Power Corporation ("KEPCO") and Sprott Korea ("Sprott"). The three photovoltaic projects have an aggregate generation capacity of 370 Megawattpeak (MWp).

Valuation

Canadian Solar's shares are up 13.7% in the past six months period and up 29.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oils-Energy sector are up 4% and down 1.3% in the past six months period, respectively. Over the past year, the Zacks sub-industry is up 64.3% whereas the sector is down 0.4%.

The S&P 500 index is up 11.1% in the past six months period and 27.5% in the past year.

The stock is currently trading at 0.35X of forward 12-month sales, which compares to 1.42X for the Zacks sub-industry, 0.89X for the Zacks sector and 3.52X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.7X and as low as 0.16X, with a 5-year median of 0.26X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$20 price target reflects 0.30X 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	0.35	1.42	0.89	3.52
	5-Year High	0.7	1.47	1.44	3.52
	5-Year Low	0.16	0.57	0.67	2.54
	5-Year Median	0.26	1	0.99	3
EV/SALES F/12M	Current	0.54	1.56	1.17	3.26
	5-Year High	0.99	1.72	2.16	3.37
	5-Year Low	0.09	0.51	0.93	2.3
	5-Year Median	0.53	1	1.33	2.78

As of 01/14/2020

Industry Analysis Zacks Industry Rank: Bottom 25% (190 out of 254)



Top Peers

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

Industry Comparison Industry: Solar				Industry Peers		
	CSIQ Underperform	X Industry	S&P 500	FSLR Underperform	JKS Outperform	SPWR Neutral
VGM Score	C	-	-	F	F	D
Market Cap	1.39 B	23.95 M	24.31 B	6.20 B	1.07 B	1.23 B
# of Analysts	3	3	13	7	1	5
Dividend Yield	0.00%	0.00%	1.76%	0.00%	0.00%	0.00%
Value Score	B	-	-	C	C	F
Cash/Price	0.78	0.19	0.04	0.26	1.50	0.19
EV/EBITDA	1.68	-0.26	14.08	18.93	-0.04	-2.93
PEG Ratio	0.24	0.90	2.06	0.86	0.24	NA
Price/Book (P/B)	1.02	1.44	3.33	1.20	0.68	NA
Price/Cash Flow (P/CF)	4.14	9.28	13.62	22.40	3.79	343.91
P/E (F1)	7.62	20.39	18.86	16.50	4.78	86.50
Price/Sales (P/S)	0.44	1.67	2.65	2.63	0.27	0.72
Earnings Yield	13.01%	2.29%	5.27%	6.06%	20.90%	1.16%
Debt/Equity	0.40	0.17	0.72	0.09	0.26	-5.70
Cash Flow (\$/share)	5.67	-0.07	6.94	2.62	6.43	0.03
Growth Score	D	-	-	F	F	C
Hist. EPS Growth (3-5 yrs)	-11.01%	-13.26%	10.56%	-33.68%	-26.78%	NA
Proj. EPS Growth (F1/F0)	34.02%	42.22%	7.52%	41.64%	105.24%	124.27%
Curr. Cash Flow Growth	106.87%	10.68%	14.88%	-29.09%	54.40%	-97.23%
Hist. Cash Flow Growth (3-5 yrs)	23.91%	9.19%	9.00%	-15.80%	6.91%	-58.29%
Current Ratio	1.09	1.07	1.23	4.00	0.95	1.31
Debt/Capital	28.60%	22.85%	42.99%	8.02%	20.41%	NA
Net Margin	6.77%	-2.42%	11.14%	-0.14%	2.27%	-8.24%
Return on Equity	12.91%	-15.89%	17.16%	-0.07%	6.70%	NA
Sales/Assets	0.63	0.59	0.55	0.33	0.68	0.81
Proj. Sales Growth (F1/F0)	26.65%	16.36%	4.18%	-4.25%	25.51%	14.43%
Momentum Score	B	-	-	F	D	C
Daily Price Chg	1.69%	0.00%	0.08%	2.33%	5.46%	2.79%
1 Week Price Chg	3.44%	0.00%	0.39%	-0.91%	-0.22%	5.09%
4 Week Price Chg	9.94%	7.98%	1.93%	4.41%	9.19%	9.63%
12 Week Price Chg	30.93%	-0.33%	6.50%	4.55%	66.10%	-7.19%
52 Week Price Chg	29.42%	25.44%	22.56%	25.44%	97.65%	57.85%
20 Day Average Volume	644,181	61,855	1,571,506	873,441	878,460	2,812,343
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-3.98%	0.00%	-1.69%
(F1) EPS Est 12 week change	-10.66%	-21.99%	-0.52%	-4.17%	30.18%	-50.94%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-2.16%	0.00%	3.33%

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	B
Growth Score	D
Momentum Score	B
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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