

## First Solar, Inc. (FSLR)

**\$37.62** (As of 03/26/20)

Price Target (6-12 Months): **\$40.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 01/30/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: D

### Summary

First Solar's is undergoing a strategic transition that involves replacement of its legacy manufacturing fleet, over the next several years, with the new Series 6 module. With the Series 6 modules enjoying solid demand worldwide, First Solar is investing heavily in production ramp up of this module. It expects to increase its nameplate Series 6 manufacturing capacity to 6 gigawatts by year-end 2020. However, the company is witnessing a cost per watt drag largely associated with Perrysburg, which together with the challenges related to the building materials, labor and sales freight costs create significant headwinds. The impact of Typhoon Hagibis caused a delay in the sale of its assets in Japan, which in turn affected its bottom line. Its shares have underperformed the industry in the past 12 months.

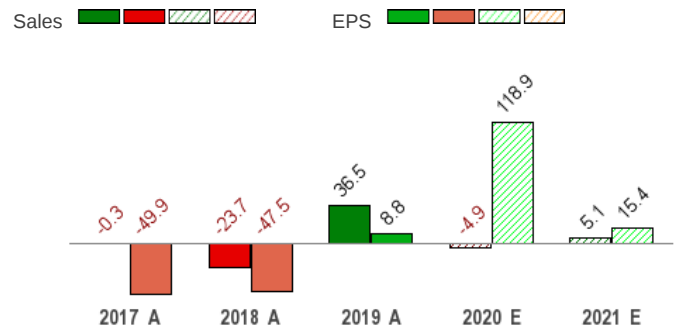
### Price, Consensus & Surprise



### Data Overview

|                            |                        |
|----------------------------|------------------------|
| 52 Week High-Low           | \$69.24 - \$28.47      |
| 20 Day Average Volume (sh) | 2,184,594              |
| Market Cap                 | \$4.0 B                |
| YTD Price Change           | -32.8%                 |
| Beta                       | 1.05                   |
| Dividend / Div Yld         | \$0.00 / 0.0%          |
| Industry                   | <a href="#">Solar</a>  |
| Zacks Industry Rank        | Top 9% (24 out of 253) |

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



|                           |            |
|---------------------------|------------|
| Last EPS Surprise         | -27.6%     |
| Last Sales Surprise       | -20.5%     |
| EPS F1 Est- 4 week change | -4.6%      |
| Expected Report Date      | 05/07/2020 |
| Earnings ESP              | 37.8%      |

### Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4      | Annual* |
|------|-------|-------|-------|---------|---------|
| 2021 | 643 E | 711 E | 790 E | 929 E   | 3,063 E |
| 2020 | 547 E | 653 E | 807 E | 829 E   | 2,914 E |
| 2019 | 532 A | 585 A | 547 A | 1,399 A | 3,063 A |

### EPS Estimates

|      | Q1        | Q2        | Q3       | Q4       | Annual*  |
|------|-----------|-----------|----------|----------|----------|
| 2021 | \$0.60 E  | \$0.82 E  | \$1.03 E | \$1.40 E | \$3.74 E |
| 2020 | \$0.23 E  | \$0.61 E  | \$1.14 E | \$1.28 E | \$3.24 E |
| 2019 | -\$0.64 A | -\$0.18 A | \$0.29 A | \$2.02 A | \$1.48 A |

\*Quarterly figures may not add up to annual.

|         |      |
|---------|------|
| P/E TTM | 25.3 |
| P/E F1  | 11.6 |
| PEG F1  | 0.5  |
| P/S TTM | 1.3  |

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/26/2020. The reports text is as of 03/27/2020.

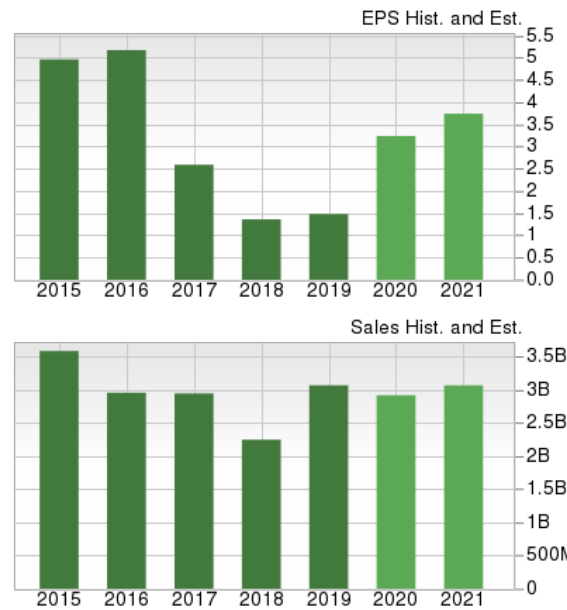
## Overview

Headquartered in Tempe, AZ **First Solar, Inc.** designs, manufactures, and sells solar electric power modules using a proprietary thin-film semiconductor technology. The company's solar modules employ a thin layer of cadmium telluride semiconductor material to convert sunlight into electricity. It sells its products to project developers, system integrators and renewable energy project operators primarily in Europe and Germany in particular. First Solar also engages in designing and deploying commercial solar projects for utilities.

The company was founded in 1999 and incorporated in 2006. Formerly known as First Solar Holdings, LLC, the company changed its name to First Solar Holdings, Inc. and subsequently to First Solar, Inc. in 2006. First Solar operates through two operating segments:

**Modules Segment:** The segment is involved in the design, manufacturing and sale of solar modules.

**Systems Segment:** The segment provides comprehensive PV solar power system solutions, which include project development, engineering, procurement and construction (EPC) services, operation & maintenance (O&M) services and, when required, project financing.



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## Reasons To Buy:

- ▲ First Solar is undergoing a strategic transition that involves replacement of its legacy manufacturing fleet, over the next several years, with the new Series 6 module. Notably, this new technology possesses the capacity to reduce the number of electrical connections and hardware required for solar system installation. Notably, in 2019, the company produced approximately 3.7 gigawatts (GW) of Series 6 modules. Backed by production commencement at its second Perrysburg factory, Series 6 production is expected to increase to 5.7 GW at the end of 2020, up 50% annually. To further ramp up its production rate and capture increased market share, the company expects to start production at its second Series 6 factory in Malaysia in the first quarter of 2021. This along with anticipated increased nameplate capacity in Perrysburg, management expects its Series 6 production to reach 7.3 to 7.7 GW by 2021. Such production ramp up expectations back First Solar's position as the largest U.S. solar module manufacturer.

First Solar's transition to Series 6 module will continue to attract customers and expand its revenue stream. Its expanding market share across the globe should benefit the stock

- ▲ With the Series 6 modules enjoying solid demand worldwide, First Solar is investing heavily in production ramp up of this module. In fact, the company's prior capital expenditures have enabled it to end 2019 with net bookings of 6.1 gigawatts and the current contracted backlog of 12.4 gigawatts. Going ahead, the company expects to make investments in the range of \$450-\$550 million during 2020, as it converts one of its remaining two Series 4 factories in Malaysia into six Series 6 factories. Its opportunity pipeline continues to grow in 2020 with global opportunity set of 18.1 gigawatts including mid-to-late stage opportunities of 8.2 gigawatts.

Given the growing demand for solar modules, the company continues to expand manufacturing capacity. It expects to increase its nameplate Series 6 manufacturing capacity to 6 gigawatts by year-end 2020 and 8 gigawatts by year-end 2021. We believe the aforementioned investment plans will enable the company to fulfill its expanded manufacturing capacity targets, which, in turn, should bolster its long-term growth trajectory.

- ▲ Although North America remains First Solar's largest geography at over 40% of the total, it has a diversified geographic mix of potential booking opportunities, particularly from the Asia-Pacific. First Solar continues to strengthen its presence in the Middle East, Australia, Japan and India. It is venturing into countries like France, Israel, Indonesia, Malaysia, Thailand and the Philippines. First Solar expects to ship 12.4 GW of modules by 2023 compared with 12.1 GW projected earlier.

First Solar recently intensified its focus on the growing Indian solar market among foreign nations. The company believes that it has significant growth opportunities for PV solar energy in India owing to its rising energy needs, substantial population centers, lack of electrification in many parts of the country, high energy costs, strong irradiance and aggressive renewable energy targets set by the government. First Solar has committed to support India's plan to install 100 GW of solar electricity by 2022.

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## Reasons To Sell:

- ▼ In July 2018, the government of India imposed a safeguard duty on solar cells and modules imported from various countries, including member countries of the Organization for Economic Co-operation and Development, China, and Malaysia, for a two-year period, starting at 25% through July 2019 and declining five percentage points in each subsequent six-month period. In addition, in March 2019, the government of India issued technical guidelines related to the enlistment of approved models and manufacturers of PV solar modules.

Pursuant to the regulations, after March 2020, all projects owned by the government or from which energy would be supplied to the government need to procure eligible components from these enlisted manufacturers. The enlistment procedures have certain distinguishing criteria depending on whether a manufacturer is located inside or outside of India, which may restrict First Solar's ability to access the market in India. This might have dented investor confidence in the stock. Notably, the company's shares have declined 27.6% in the past 12 months against the industry's growth of 17.8%.

- ▼ With the start to Series 6 commercial manufacturing, the company faced challenges with regard to certain aspects of the overall cost per watt, particularly glass and frame cost, which was compounded by tariff related uncertainty. Particularly, First Solar is witnessing a cost per watt drag largely associated with Perrysburg, which together with the challenges related to build materials, labor and sales freight costs created significant headwinds. Although throughout 2020, the module cost per watt at Perrysburg is expected to improve, First Solar does not expect to fully overcome the cost challenges that it experienced in 2019. Perrysburg, representing one-third of the production, will create a headwind of approximately 1 cent per watt for First Solar across the fleet in 2020.
- ▼ First Solar did not complete the sales of its Ishikawa, Miyagi and Hanamizu projects in Japan. This was because of the impact of Typhoon Hagibis, which passed near its Miyagi project in last October. In fact, failure to close the sale of its Japan assets impacted the company's EPS by approximately 50 cents. Moreover, in late December 2019 as well as in January and February 2020, the company experienced heavy rainfall at its Georgia site, which resulted in project delays and increased costs, impacting gross margin by approximately \$12 million. Thus, temperature has been playing spoilsport for First Solar's operational performance.

Unfavorable cost per watt, regulations on import of solar modules in foreign nations and unfavorable weather patterns remain major headwinds for First Solar

## Last Earnings Report

### First Solar Q4 Earnings Lag Estimates, Sales Rise Y/Y

First Solar reported fourth-quarter 2019 adjusted earnings of \$2.02 per share, which missed the Zacks Consensus Estimate of \$2.79 by 27.6%.

Including one-time litigation losses, the company reported GAAP loss of 56 cents per share against earnings of 50 cents recorded in the prior-year quarter.

For 2019, the company reported adjusted earnings of \$1.48 compared with the Zacks Consensus Estimate of \$2.45 per share.

Quarter Ending **12/2019**

|                  |                     |
|------------------|---------------------|
| Report Date      | <b>Feb 20, 2020</b> |
| Sales Surprise   | <b>-20.48%</b>      |
| EPS Surprise     | <b>-27.60%</b>      |
| Quarterly EPS    | <b>2.02</b>         |
| Annual EPS (TTM) | <b>1.49</b>         |

### Sales

First Solar's sales of \$1,399.4 million in the reported quarter missed the Zacks Consensus Estimate of \$1,759.7 million by 20.5%. However, the top line improved a massive 102.4% from the year-ago quarter's \$691.2 million.

For 2019, the company recorded revenues of \$3.06 billion, which missed the Zacks Consensus Estimate of \$3.44 billion by 11%. However, the full-year top line improved 36.5% from the year-ago quarter figure of \$2.24 billion.

### Operational Highlights

In the fourth quarter, gross profit totaled \$333.6 million compared with \$98.3 million in the year-ago quarter.

Total operating expenses surged a massive 417.1% to \$451.4 million primarily due to litigation losses worth \$363 million.

Consequently, the company incurred operating loss of \$117.9 million at the end of fourth-quarter 2019 against operating income of \$11 million in the year-ago quarter.

### Financial Performance

First Solar had \$1.35 billion million of cash and cash equivalents as of Dec 31, 2019, down from \$1.40 billion as of Dec 31, 2018.

Long-term debt totaled \$454.2 million at the end of 2019 compared with \$461.2 million as of Dec 31, 2018.

### 2020 Guidance

The company currently expects to record earnings in the range of \$3.25-\$3.75 per share on sales of \$2.7-\$2.9 billion in 2020. The Zacks Consensus Estimate for 2020 earnings, pegged at \$3.63, lies above the midpoint of the company's projected range. The Zacks Consensus Estimate for 2020 sales, pegged at \$3.38 billion, lies above the guided range.

Moreover, the company expects to incur operating expenses in the range of \$340-\$360 million while gross margin is projected in the band of 26-27%.

Meanwhile, First Solar forecasts shipment to remain in the band of 5.8-6.0 gigawatts.

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## Recent News

On **March 2, 2020**, First Solar announced that Longroad Energy is the acquirer of four solar projects with a combined capacity of 160-megawatts (MW)AC. The projects, which range from 20MWAC to 50MWAC and are expected to be completed by the end of the fourth quarter of 2020, are designed to have a low impact on local land and water resources, and the environment

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## Valuation

First Solar's shares are down 32.7% in the year-to-date period and down 27.6% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 11.1%, whereas the Zacks Oils-Energy sector declined 47.2% in the year-to-date period. Over the past year, the Zacks sub-industry is up 17.8% whereas the sector is down 52.4%.

The S&P 500 index is down 23% in the year-to-date period and down 12.8% in the past year.

The stock is currently trading at 1.3X of forward 12-month sales, which compares to 1.2X for the Zacks sub-industry, 0.6 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 3.3X and as low as 1.0X, with a 5-year median of 1.7X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$40 price target reflects 1.4X forward 12-month sales.

The table below shows summary valuation data for FSLR

| Valuation Multiples - FSLR |               |       |              |        |         |
|----------------------------|---------------|-------|--------------|--------|---------|
|                            |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/S F12M                   | Current       | 1.31  | 1.21         | 0.57   | 2.68    |
|                            | 5-Year High   | 3.27  | 1.66         | 1.45   | 3.43    |
|                            | 5-Year Low    | 1.03  | 0.57         | 0.57   | 2.54    |
|                            | 5-Year Median | 1.65  | 1            | 0.99   | 3       |
| EV/SALES F12M              | Current       | 0.61  | 1.56         | 0.72   | 2.35    |
|                            | 5-Year High   | 2.13  | 1.71         | 2.17   | 3.52    |
|                            | 5-Year Low    | 0.24  | 0.51         | 0.72   | 2.3     |
|                            | 5-Year Median | 1.06  | 1            | 1.33   | 2.8     |
| P/B TTM                    | Current       | 0.78  | 1.86         | 0.69   | 3.33    |
|                            | 5-Year High   | 1.58  | 3.09         | 1.6    | 4.56    |
|                            | 5-Year Low    | 0.5   | 0.6          | 0.54   | 2.85    |
|                            | 5-Year Median | 1.04  | 1.3          | 1.31   | 3.63    |

As of 03/26/2020

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## Industry Analysis Zacks Industry Rank: Top 9% (24 out of 253)



## Top Peers

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

| Industry Comparison Industry: Solar |              |            |           | Industry Peers   |                 |              |
|-------------------------------------|--------------|------------|-----------|------------------|-----------------|--------------|
|                                     | FSLR Neutral | X Industry | S&P 500   | JKS Underperform | SEDG Outperform | SPWR Neutral |
| <b>VGM Score</b>                    | <b>A</b>     | -          | -         | <b>C</b>         | <b>B</b>        | <b>C</b>     |
| Market Cap                          | 3.97 B       | 27.27 M    | 18.50 B   | 760.98 M         | 4.45 B          | 1.07 B       |
| # of Analysts                       | 8            | 2.5        | 13        | 1                | 4               | 4            |
| Dividend Yield                      | 0.00%        | 0.00%      | 2.35%     | 0.00%            | 0.00%           | 0.00%        |
| <b>Value Score</b>                  | <b>A</b>     | -          | -         | <b>D</b>         | <b>C</b>        | <b>C</b>     |
| Cash/Price                          | 0.61         | 0.33       | 0.07      | 3.22             | 0.10            | 0.47         |
| EV/EBITDA                           | 20.08        | 0.31       | 11.16     | -3.15            | 19.06           | 10.03        |
| PEG Ratio                           | 0.47         | 0.64       | 1.74      | 0.27             | 0.64            | NA           |
| Price/Book (P/B)                    | 0.78         | 1.10       | 2.44      | 0.43             | 5.42            | 49.89        |
| Price/Cash Flow (P/CF)              | 10.94        | 6.85       | 9.87      | 2.69             | 25.34           | 97.56        |
| P/E (F1)                            | 10.90        | 15.74      | 15.29     | 5.35             | 16.04           | 364.57       |
| Price/Sales (P/S)                   | 1.30         | 0.94       | 1.93      | 0.18             | 3.12            | 0.58         |
| Earnings Yield                      | 8.61%        | 3.49%      | 6.47%     | 18.68%           | 6.24%           | 0.31%        |
| Debt/Equity                         | 0.09         | 0.21       | 0.70      | 0.23             | 0.04            | 45.59        |
| Cash Flow (\$/share)                | 3.44         | -0.02      | 7.01      | 6.43             | 3.57            | 0.07         |
| <b>Growth Score</b>                 | <b>A</b>     | -          | -         | <b>B</b>         | <b>A</b>        | <b>C</b>     |
| Hist. EPS Growth (3-5 yrs)          | -33.70%      | -15.51%    | 10.85%    | -24.55%          | 42.14%          | NA           |
| Proj. EPS Growth (F1/F0)            | 118.67%      | 37.42%     | 2.89%     | 15.77%           | 26.97%          | 106.03%      |
| Curr. Cash Flow Growth              | 31.84%       | 19.68%     | 5.93%     | 54.40%           | 21.61%          | 209.28%      |
| Hist. Cash Flow Growth (3-5 yrs)    | -10.06%      | 10.04%     | 8.55%     | 6.91%            | 60.15%          | -47.08%      |
| Current Ratio                       | 2.73         | 1.22       | 1.23      | 1.01             | 2.14            | 1.54         |
| Debt/Capital                        | 8.18%        | 26.34%     | 42.57%    | 18.89%           | 3.61%           | 97.85%       |
| Net Margin                          | -3.75%       | -7.41%     | 11.64%    | 2.99%            | 10.28%          | 1.19%        |
| Return on Equity                    | 3.06%        | -15.23%    | 16.74%    | 8.49%            | 20.03%          | NA           |
| Sales/Assets                        | 0.42         | 0.59       | 0.54      | 0.67             | 1.09            | 0.90         |
| Proj. Sales Growth (F1/F0)          | -1.34%       | 16.84%     | 2.37%     | 3.80%            | 31.96%          | 15.85%       |
| <b>Momentum Score</b>               | <b>D</b>     | -          | -         | <b>F</b>         | <b>D</b>        | <b>D</b>     |
| Daily Price Chg                     | 8.13%        | 0.00%      | 6.21%     | 4.92%            | 0.61%           | -4.35%       |
| 1 Week Price Chg                    | -6.31%       | -14.29%    | -16.96%   | -23.49%          | -23.60%         | 14.82%       |
| 4 Week Price Chg                    | -14.98%      | -26.97%    | -15.70%   | -26.71%          | -28.19%         | -23.68%      |
| 12 Week Price Chg                   | -34.28%      | -13.98%    | -23.67%   | -27.48%          | -11.16%         | -18.52%      |
| 52 Week Price Chg                   | -27.68%      | -13.26%    | -13.99%   | -1.82%           | 139.54%         | -0.93%       |
| 20 Day Average Volume               | 2,184,594    | 112,862    | 4,286,768 | 2,186,755        | 1,669,413       | 5,520,081    |
| (F1) EPS Est 1 week change          | 0.00%        | 0.00%      | -0.15%    | 0.00%            | 0.00%           | 0.00%        |
| (F1) EPS Est 4 week change          | -4.62%       | -4.62%     | -2.28%    | -36.54%          | 0.00%           | -13.33%      |
| (F1) EPS Est 12 week change         | -8.26%       | -8.26%     | -3.22%    | -36.54%          | 15.63%          | 6.59%        |
| (Q1) EPS Est Mthly Chg              | -15.32%      | 0.00%      | -1.60%    | -22.48%          | 0.00%           | 0.00%        |

## 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   | A |
| Momentum Score | D |
| VGM Score      | A |

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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