

First Solar, Inc. (FSLR)

\$78.19 (As of 08/26/20)

Price Target (6-12 Months): **\$84.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/10/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: F

Summary

First Solar ended the second quarter of 2020 with both earnings and revenues exceeding the Zacks Consensus Estimate. It is undergoing a strategic transition that involves replacement of its legacy manufacturing fleet with the new Series 6 module. With solid demand worldwide, First Solar is investing heavily in production ramp up of this module. It expects the Series 6 production to reach 7.3 to 7.7 GW by 2021. It has also recently intensified its focus on the growing Indian solar market among foreign nations. However, in certain markets, demand for its utility-scale offerings may be affected by specific regulations or policies of governmental bodies or utility regulators. The impacts caused by the COVID-19 pandemic have also adversely affected certain purchasers of modules and systems. Its shares have underperformed the industry in the past year.

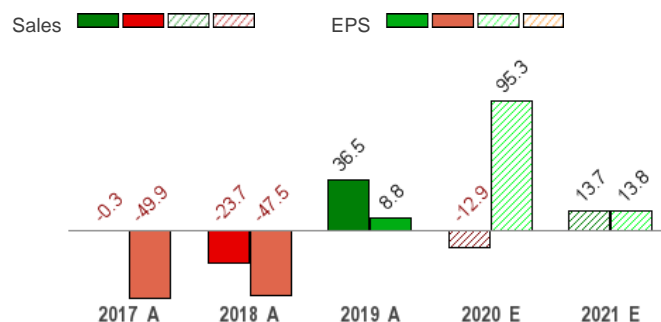
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|---------------------------------|
| 52 Week High-Low | \$80.09 - \$28.47 |
| 20 Day Average Volume (sh) | 1,604,462 |
| Market Cap | \$8.3 B |
| YTD Price Change | 39.7% |
| Beta | 1.32 |
| Dividend / Div Yld | \$0.00 / 0.0% |
| Industry | Solar |
| Zacks Industry Rank | Top 42% (105 out of 252) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|-------------------|
| Last EPS Surprise | 40.0% |
| Last Sales Surprise | 22.0% |
| EPS F1 Est- 4 week change | 0.9% |
| Expected Report Date | 10/22/2020 |
| Earnings ESP | 6.9% |
| P/E TTM | 22.3 |
| P/E F1 | 27.1 |
| PEG F1 | 1.2 |
| P/S TTM | 2.7 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|-------|-------|-------|---------|---------|
| 2021 | 674 E | 718 E | 773 E | 862 E | 3,032 E |
| 2020 | 532 A | 642 A | 676 E | 844 E | 2,667 E |
| 2019 | 532 A | 585 A | 547 A | 1,399 A | 3,063 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|-----------|-----------|----------|----------|----------|
| 2021 | \$0.66 E | \$0.77 E | \$0.86 E | \$1.03 E | \$3.29 E |
| 2020 | \$0.85 A | \$0.35 A | \$0.62 E | \$1.08 E | \$2.89 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.

The data in the charts and tables, except sales and EPS estimates, is as of 08/26/2020. The reports text and the analyst-provided sales and EPS estimates are as of 08/27/2020.

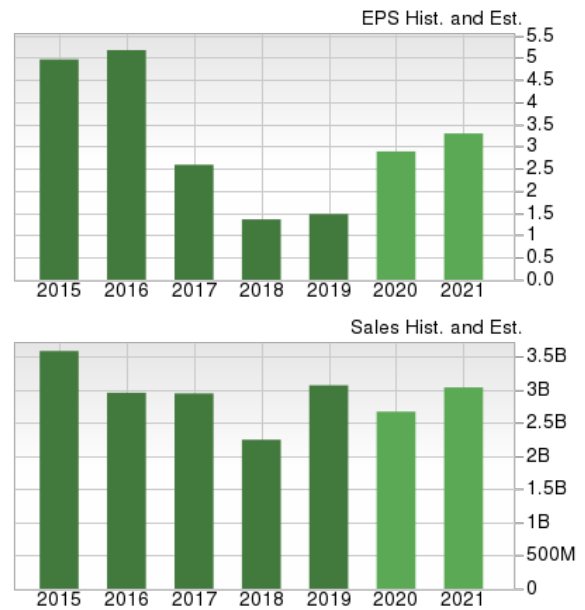
Overview

Headquartered in Tempe, AZ **First Solar, Inc.** is a leading global provider of comprehensive PV solar energy solutions and specializes in designing, manufacturing, and selling 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 also develops and sells PV solar power systems that primarily use the modules it manufactures. Additionally, it provides operations and maintenance ("O&M") services to system owners.

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. In April 2018, we commenced commercial production of our Series 6 module technology, which represents the latest generation of our flagship module. During 2019, it sold the majority of its solar modules to integrators and operators of systems in the United States and France, and such third-party module sales represented approximately 48% of its total net sales.

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. As of December 31, 2019, the company owned and operated a number of systems in various geographic markets, including Chile, India, the United States, and the Asia Pacific region.



Reasons To Buy:

▲ First Solar has been 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. As of Jun 30, 2020, First Solar produced 3.5 gigawatts (GW) of modules including 3.3 GW of Series 6 modules. Backed by production commencement at its second Perrysburg factory, the company expects to produce 5.9 GWDC of solar modules during 2020, including 5.7 GWDC of Series 6 and 0.2 GWDC of Series 4. 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. Taking this into consideration 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 should enable First Solar to maintain its 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 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.

▲ First Solar's cash equivalents in the second quarter of 2020 remained much higher compared to its long-term and current debt levels. As of June 30, 2020, its cash equivalents were \$1,547 million, which increased sequentially from \$1,509 million. The company's long-term debt stood at \$388million and current debt stood at \$77 million, respectively as of June 30, 2020. A comparative analysis of these figures reflects the strength of First Solar's cash reserve, against its long-term and current debt value. This reflects the company's strong solvency position at a time, when major companies are struggling from cash crunch caused by the COVID-19-led production halt.

Moreover, the company's current ratio as of June 30, 2020, is 3.66, which being more than 1, indicates that the company possesses sufficient capital in hand to meet its short-term obligations. Further, the company's interest coverage ratio of 1.2 as of Jun 30, 2020 also improved sequentially. All these favorable factors make us optimistic about First Solar's ability to meet debt obligations in the near future.

Reasons To Sell:

▼ 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.

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

▼ In certain markets, demand for the company's utility-scale offerings may be affected by specific regulations or policies of governmental bodies or utility regulators. For example, in June 2020, the Japanese legislature enacted an amendment to the Electricity Business Law Enforcement Order for the Ministry of Economy, Trade and Industry (METI) of Japan, which is expected to invalidate the feed-in-tariff certificates for projects that fail to achieve construction plan acceptance or commercial operation within a set period of time, following dates specified in their respective certificates. Following this legislature, any deadlines that precede the expected construction plan acceptance or commercial operation dates of the company's various projects in Japan could adversely impact the value of such projects and First Solar's ability to secure any related project financing.

▼ The impacts caused by the COVID-19 pandemic have affected certain purchasers of modules and systems, which may result in additional pressure on demand and average selling prices of modules, going ahead. To this end, it is imperative to mention that First Solar's results for the second quarter of 2020 were modestly affected due to COVID-19-related delays.

Furthermore, the solar industry continues to be characterized by intense pricing competition, both at the module and system levels, which may put pressure on pricing and be intensified by the current pandemic. Looking ahead, as the duration and severity of the pandemic remains uncertain, such projections might have a significant adverse impact on the company's sales. Its shares have gained 26% in the past year compared with the industry's growth of 90.9%.

▼ A comparative analysis of First Solar's historical P/S ratio reflects a relatively gloomy picture that might be a cause of investors' concern. The stock currently has a trailing 12-month P/S ratio of 2.67. This level compares unfavorably with what the stock saw in the past 12 months. The ratio is higher than the industry's average of 1.62.

Last Earnings Report

First Solar Q2 Earnings & Revenues Beat Estimates

First Solar Inc. reported second-quarter 2020 adjusted earnings of 35 cents per share, which surpassed the Zacks Consensus Estimate of 25 cents by 40%. The reported figure also improved significantly from the prior-year quarter's loss of 18 cents.

Sales Update

First Solar's sales of \$642.4 million in the reported quarter exceeded the Zacks Consensus Estimate of \$527 million by 21.9%. Moreover, the top line witnessed a 9.8% increase from the year-ago quarter's \$585 million, primarily due to the sale of the American Kings project.

Operational Highlights

In the second quarter, gross profit totaled \$137.5 million, which surged significantly from \$77.2 million reported in the year-ago quarter.

Total operating expenses increased 0.9% to \$86.6 million due to production start-up costs and litigation losses.

However, the company reported an operating income of \$50.9 million against an operating loss of \$8.6 million incurred in the year-ago quarter. The upside can primarily be attributable to significantly higher gross profit in the quarter.

Financial Performance

First Solar had \$1,052.7 million of cash and cash equivalents as of Jun 30, 2020, down from \$1,352.7 million as of Dec 31, 2019.

Long-term debt totaled \$387.7 million at the end of the second quarter compared with \$454.2 million as of Dec 31, 2019.

2020 Outlook

First Solar has withdrawn its 2020 guidance, given the uncertainty regarding the severity and duration of the COVID-19 pandemic and its impact on the company's operations and financial results as well as the energy and capital markets.

However, it continued to provide its 2020 module production, operating expenses and capital expenditure guidance. First Solar expects 2020 module production to be 5.9 GWDC, including 5.7 GWDC of Series 6 and 0.2 GWDC of Series 4. It expects operating expenses of \$345-\$365 million and capital expenditures of \$450-\$550 million for 2020.

Quarter Ending **06/2020**

| Report Date | Aug 06, 2020 |
|------------------|--------------|
| Sales Surprise | 22.00% |
| EPS Surprise | 40.00% |
| Quarterly EPS | 0.35 |
| Annual EPS (TTM) | 3.51 |

Recent News

On **Aug 21, 2020**, First Solar, Inc.'s Luz del Norte power plant secured approval from Chile's independent system operator (ISO), Coordinador Eléctrico Nacional, for delivering ancillary grid services on a commercial basis. Notably, the Luz del Norte project is the largest photovoltaic (PV) solar power plant in Latin America, powered by more than 1.7 million First Solar advanced thin film PV modules.

With the latest sanction, this 141 megawatt plant becomes the world's first known utility-scale solar facility licensed to deliver grid services.

On **June 18, 2020**, First Solar announced that it had signed a 15-year power purchase agreement (PPA) with Dow, Inc. (DOW) for its Gulf Coast operations. Dow's Texas Operations is the largest petrochemical site in the western hemisphere. First Solar had previously disclosed the execution of the PPA without identifying the offtaker.

Under the agreement, First Solar will supply Dow with renewable energy from 75 percent of its 200-megawatt (MW) AC Horizon Solar project in Frio County, Texas. The project will utilize First Solar's high-performance, eco-efficient Series 6 photovoltaic (PV) modules, designed and developed at the Company's research and development (R&D) centers in California and Ohio. The Series 6 modules that will power the project utilize a range of advanced technologies, including ENGAGE PV Polyolefin Elastomers by Dow, which are used as encapsulant films to enhance the module's performance and efficiency.

Valuation

First Solar's shares are up 39.8% in the year-to-date period and 26% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 109.6%, whereas the Zacks Oils-Energy sector declined 37.3% in the year-to-date period. Over the past year, the Zacks sub-industry is up 90.9% whereas the sector is down 31.3%.

The S&P 500 index is up 8.1% in the year-to-date period and up 20.9% in the past year.

The stock is currently trading at 2.9X of forward 12-month sales, which compares to 3X for the Zacks sub-industry, 0.7X for the Zacks sector and 3.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 3.3X and as low as 1X, with a 5-year median of 1.7X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$84 price target reflects 3.1X 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 | 2.89 | 3.03 | 0.71 | 3.81 |
| | 5-Year High | 3.27 | 3.03 | 1.47 | 3.81 |
| | 5-Year Low | 1.03 | 0.57 | 0.59 | 2.53 |
| | 5-Year Median | 1.7 | 1 | 0.99 | 3.05 |
| EV/SALES F12M | Current | 2.36 | 3.33 | 1.07 | 3.38 |
| | 5-Year High | 2.38 | 3.33 | 2.19 | 3.52 |
| | 5-Year Low | 0.24 | 0.51 | 0.72 | 2.28 |
| | 5-Year Median | 1.11 | 1.02 | 1.32 | 2.86 |

As of 08/26/2020

Industry Analysis Zacks Industry Rank: Top 42% (105 out of 252)



Top Peers

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

| Industry Comparison Industry: Solar | | | | Industry Peers | | |
|-------------------------------------|-----------|------------|-----------|----------------|-----------|-----------|
| | FSLR | X Industry | S&P 500 | JKS | SEDG | SPWR |
| Zacks Recommendation (Long Term) | Neutral | - | - | Neutral | Neutral | Neutral |
| Zacks Rank (Short Term) | 3 | - | - | 3 | 3 | 3 |
| VGM Score | C | - | - | C | B | C |
| Market Cap | 8.29 B | 73.34 M | 23.69 B | 964.33 M | 10.77 B | 2.32 B |
| # of Analysts | 10 | 3.5 | 14 | 1 | 4 | 6 |
| Dividend Yield | 0.00% | 0.00% | 1.65% | 0.00% | 0.00% | 0.00% |
| Value Score | C | - | - | C | D | D |
| Cash/Price | 0.20 | 0.10 | 0.07 | 1.79 | 0.05 | 0.14 |
| EV/EBITDA | 63.39 | 2.04 | 13.37 | -0.97 | 47.27 | 16.37 |
| PEG Ratio | 1.17 | 0.95 | 3.04 | 0.36 | 2.24 | NA |
| Price/Book (P/B) | 1.58 | 2.98 | 3.17 | 0.53 | 11.65 | 56.08 |
| Price/Cash Flow (P/CF) | 22.73 | 25.20 | 12.78 | 3.51 | 60.20 | 208.26 |
| P/E (F1) | 27.15 | 41.54 | 21.63 | 7.23 | 56.01 | NA |
| Price/Sales (P/S) | 2.65 | 1.94 | 2.50 | 0.21 | 6.77 | 1.23 |
| Earnings Yield | 3.70% | -0.11% | 4.44% | 13.83% | 1.79% | -4.92% |
| Debt/Equity | 0.07 | 0.24 | 0.75 | 0.20 | 0.03 | 13.69 |
| Cash Flow (\$/share) | 3.44 | -0.02 | 6.94 | 6.24 | 3.57 | 0.07 |
| Growth Score | B | - | - | C | B | A |
| Hist. EPS Growth (3-5 yrs) | -31.09% | -21.42% | 10.41% | -21.42% | 24.84% | NA |
| Proj. EPS Growth (F1/F0) | 95.20% | 10.67% | -4.92% | 8.60% | -13.57% | -131.61% |
| Curr. Cash Flow Growth | 31.84% | 25.92% | 5.22% | 49.75% | 21.61% | 209.28% |
| Hist. Cash Flow Growth (3-5 yrs) | -10.06% | 9.19% | 8.50% | 15.10% | 60.15% | -47.08% |
| Current Ratio | 3.66 | 1.34 | 1.34 | 1.00 | 2.65 | 1.03 |
| Debt/Capital | 6.91% | 27.69% | 44.18% | 16.66% | 3.14% | 93.19% |
| Net Margin | 3.17% | 0.00% | 10.25% | 3.51% | 10.89% | 0.44% |
| Return on Equity | 7.18% | -4.47% | 14.66% | 9.86% | 20.76% | NA |
| Sales/Assets | 0.44 | 0.60 | 0.50 | 0.71 | 1.07 | 0.94 |
| Proj. Sales Growth (F1/F0) | -13.12% | 0.00% | -1.45% | 9.60% | 5.00% | -15.85% |
| Momentum Score | F | - | - | D | A | B |
| Daily Price Chg | 1.06% | 0.00% | -0.18% | -1.84% | 0.83% | 2.60% |
| 1 Week Price Chg | -0.28% | 0.00% | -1.45% | 0.80% | -2.70% | 3.08% |
| 4 Week Price Chg | 30.08% | 12.30% | 2.10% | 12.30% | 21.59% | 39.76% |
| 12 Week Price Chg | 57.96% | 42.72% | 3.61% | 29.95% | 42.72% | 75.06% |
| 52 Week Price Chg | 26.01% | 21.22% | 3.61% | 10.66% | 160.07% | 3.50% |
| 20 Day Average Volume | 1,604,462 | 271,594 | 1,883,291 | 1,138,705 | 1,044,831 | 4,739,063 |
| (F1) EPS Est 1 week change | -0.34% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| (F1) EPS Est 4 week change | 0.91% | 0.00% | 0.93% | 0.00% | 6.33% | 20.78% |
| (F1) EPS Est 12 week change | 1.05% | -1.44% | 3.41% | -2.88% | 6.33% | 19.20% |
| (Q1) EPS Est Mthly Chg | -8.02% | 0.00% | 0.00% | 0.00% | 7.11% | -14.04% |

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 | C |
| Growth Score | B |
| 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.

Disclosures

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