

SunPower Corp. (SPWR)

\$6.85 (As of 05/01/20)

Price Target (6-12 Months): **\$7.25**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/23/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: C

Momentum: F

Summary

SunPower is one of the most forward-integrated solar companies, having more than a decade-long experience in designing, manufacturing and supplying large-scale solar systems. The company pledges to increasingly attach Helix and Equinox storage to its solar systems, which is expected to enhance its revenues. Backed by this strong demand in the commercial business, SunPower won awards worth more than \$500 million in 2019 and acquired bookings worth 26 megawatts during the fourth quarter. However, shares of SunPower have underperformed the industry in the past six months. The company is also facing increasing challenges in terms of project execution of commercial direct business, which may impact its near-term profitability. These challenges are primarily related to project delays.

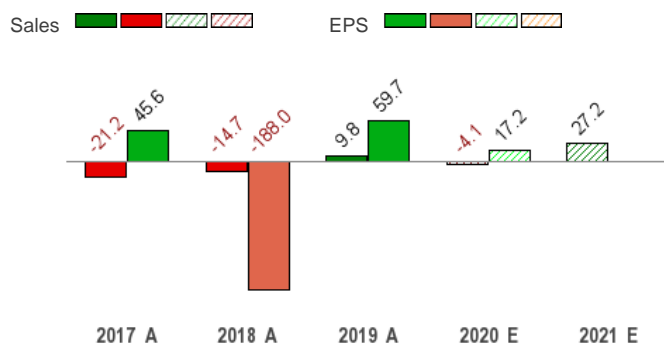
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$16.04 - \$4.03
20 Day Average Volume (sh)	2,628,038
Market Cap	\$1.2 B
YTD Price Change	-12.2%
Beta	2.25
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Solar
Zacks Industry Rank	Top 21% (53 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	76.9%
Last Sales Surprise	-0.4%
EPS F1 Est- 4 week change	-52.0%
Expected Report Date	05/07/2020
Earnings ESP	56.1%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	486 E	577 E	639 E	810 E	2,431 E
2020	442 E	524 E	591 E	752 E	1,911 E
2019	412 A	482 A	492 A	607 A	1,992 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.01 E	\$0.04 E	\$0.10 E	\$0.19 E	\$0.30 E
2020	-\$0.21 E	-\$0.13 E	-\$0.05 E	\$0.11 E	-\$0.24 E
2019	-\$0.41 A	-\$0.22 A	\$0.07 A	\$0.23 A	-\$0.29 A

*Quarterly figures may not add up to annual.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.6

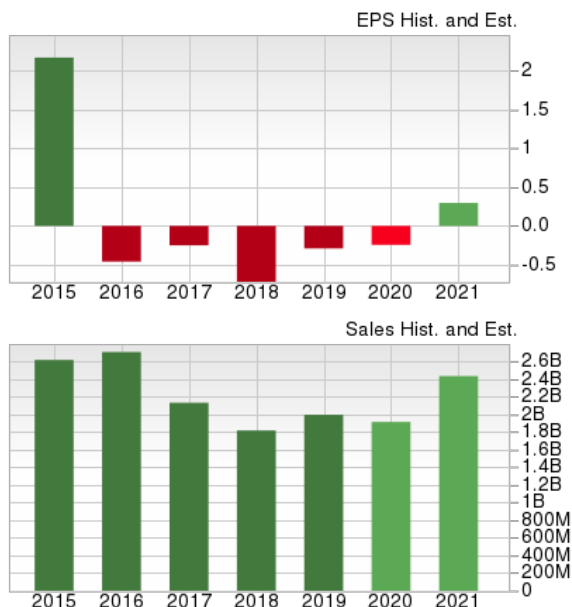
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/01/2020. The reports text is as of 05/04/2020.

Overview

San Jose, CA-based SunPower Corporation, incorporated in 1985, designs, develops, manufactures, markets and sells high-performance solar electric power technology products, systems and services worldwide for residential, commercial and utility-scale power plant customers. The company's semiconductor-based solar cells and solar panels, which convert sunlight into electricity, are manufactured using proprietary processes and technologies.

SunPower provides wide array of products and services – solar power products (solar panels, balance of system components and inverters), solar power systems (commercial roof and ground mounted systems, and utility systems), utility-scale solar power system construction and development, services and solutions (operations and maintenance, and residential leasing program), research and development, and supplier relationships, manufacturing, and panel assembly.

The company has three end-customer segments – the Residential Segment, the Commercial Segment and the Power Plant Segment. The Residential and Commercial segments combined are referred to as Distributed Generation.



Reasons To Buy:

- ▲ SunPower is one of the most forward-integrated solar companies, having more than a decade of experience in designing, manufacturing and supplying large-scale solar systems. The company continues to witness growth in residential and commercial markets. In its residential unit, the company recently boosted production its A-Series panels to meet strong demand. In fact, SunPower's residential megawatt volume increased 20% sequentially backed by strong demand for its industry-leading A-Series panels. Meanwhile, the company boasts a significant opportunity in the commercial direct market as many corporations are expanding their green energy procurement activities.

SunPower's focus on enhancing its product offering, expanding its storage pipeline and strategies to consolidate its position will drive earnings, going forward.

Backed by this strong demand in the commercial business, SunPower won awards worth more than \$500 million in 2019 and acquired bookings worth 26 megawatts in the fourth quarter. Going ahead, the company expects its commercial direct business to return to profitability in the second half of 2020, indicating solid growth prospects for the company.

- ▲ Over the past few years, the solar-plus-storage market has been expanding rapidly. According to Wood Mackenzie, this market is expected to see a CAGR of 45% through 2023, creating a market opportunity of over 2 GW for solar players like SunPower. To this end, the company pledges to increasingly attach Helix and Equinox storage to its commercial and residential solar systems, which is expected to enhance its revenues and margins. Notably, the company's Helix storage solution continues to gain traction with the pipeline exceeding 175 megawatts and average attach rates being 35%, as of Dec 31, 2019. Moreover, the company has been awarded its largest C&I storage project to date. The project comprises a 20-megawatt power battery system for the Chevron Lost Hills solar project. Such developments indicate the significant progress that SunPower is making in its solar storage business.
- ▲ In November 2019, SunPower revealed its plans to separate into two independent, complementary, strategically-aligned and publicly-traded companies — SunPower and Maxeon Solar Technologies. With this deal, as a focused pure-play DG energy company, SunPower will be positioned to capitalize on the fast-growing market for solar plus storage leveraging an extremely powerful solar platform that it has been developing for many years. With the largest installed base in the U.S. residential and commercial market, more than 500 channel partners in a leadership position in new homes and commercial direct, new SunPower is forecast to be the largest North American downstream DG solar pure play.
- ▲ SunPower's cash and cash equivalent at the end of 2019 was \$423 million, compared to \$309.4 million as of December 2018. On the other hand, the company's long-term debt as of Dec 29, 2019, stands at \$113.8 million, up from \$40.5 million at the end of 2018. Although the long-term debt level has increased more than double annually in 2019, it lies much lower than the company's cash reserve. This is a good news in terms of the company's solvency level, at least during this crisis period when the whole world economy is hanging in balance thanks to the effects of the coronavirus outbreak.

Moreover, the company's current ratio as of Dec 31, 2020, is 1.54, which increased sequentially from 1.31 at the end of September 2019. Moreover, its current ratio being more than 1, indicates that this solar player has sufficient capital on hand to meet its short-term obligations. Further, SunPower's times interest earned ratio improved sequentially from a negative of 1.4 to a positive 1.5 at the end of December 2019, where as its debt-to-capital ratio declined to 0.98 from 1.19 sequentially. All these favorable ratio levels make us optimistic about the company's ability to meet debt obligations in the near future.

Reasons To Sell:

- ▼ The solar industry experiences steep competition from both established companies and new entrants in the market. Asia is expected to be a big solar market in the near future, with Japan, India and China primarily experiencing solid demand. Meanwhile, SunPower continues to face stiff competition from Chinese solar manufacturers in the Asia-Pacific region. Chinese solar manufacturers not only have support of government's stimulus but also a geographical proximity, which adversely impacts the company's business in these regions.
- ▼ SunPower continues to face challenges on the project execution side of commercial direct business, which is directly impacting its EBITDA. These challenges are primarily related to project delays. To recover from these challenges, the company has implemented a number of changes including moving more projects to external EPC partners, further reducing fixed costs, reorganizing leadership and focusing its bookings on margin rather than volume. As a result of these initiatives, the company does not expect to return to profitability before the second half of 2020. So, for the first two quarters of 2020, we remain skeptical about the company's profit generating capacity.
- ▼ Recently, shares of U.S.-based solar stocks have been witnessing a downturn due to China's persistent trade and currency disputes with the United States. Both the countries 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. In response, China's currency devaluation has now become a threat to U.S.-based companies that do business in the country. In the near term, uncertainty surrounding the impact of the existing tariffs on the U.S. solar market and the trade tensions between China and the United States have the potential to harm SunPower's business significantly. This may have resulted in investors becoming cautious. In the past six months, SunPower's stock has declined 19.7% compared with the industry's 9.1% decline.

Steep competition, challenges in commercial direct business along with trade dispute between China and America are headwinds for the company.

Last Earnings Report

SunPower Q4 Earnings Top Estimates, Revenues Miss

SunPower reported adjusted earnings of 23 cents per share in fourth-quarter 2019, surpassing the Zacks Consensus Estimate of 13 cents by 77%. The company had incurred a loss of 21 cents per share in the year-ago quarter.

Including one-time adjustments, the company generated GAAP earnings of 3 cents per share against the prior-year quarter's loss of \$1.12 per share.

The year-over-year improvement can be attributed to solid revenues and operating income growth.

For 2019, the company reported adjusted loss of 29 cents per share, in contrast to the Zacks Consensus Estimate of 41 cents. The company had incurred a loss of 72 cents per share in the prior year.

Operational Results

For the quarter under review, SunPower's adjusted revenues came in at \$607 million, lagging the Zacks Consensus Estimate of \$609 million by 0.4%. However, the top line improved 15.5% from \$525.4 million in the year-ago quarter.

The reported figure came in below the mid-point of the company's expectation of \$520-\$720 million. The year-over-year upside can be primarily attributed to higher revenues from both SunPower Energy Services and SunPower Technologies business units.

For 2019, the company recorded adjusted revenues of \$1.99 billion, lagging the Zacks Consensus Estimate of \$2.03 billion by 2%. However, the top line improved 9.8% from last year's \$1.81 billion.

Furthermore, the company recorded adjusted gross profit of \$126.1 million, up a massive 248.4% from the year-ago quarter. Its adjusted gross margin expanded 1,390 basis points to 20.8%.

These apart, SunPower deployed 707 megawatts (MW) in the fourth quarter compared with 461 MW in fourth-quarter 2018. The company surpassed its expected range of 445-645 MW in the reported quarter.

Financial Position

SunPower had cash and cash equivalents of \$423 million as of Dec 29, 2019, compared with \$309.4 million as of Dec 30, 2018.

Long-term debt was \$113.8 million as of Dec 29, 2019, compared with \$40.5 million as of Dec 31, 2018.

In 2019, net cash outflow from operating activities totaled \$270.4 million compared with cash outflow of \$543.4 million in 2018.

Outlook

For first-quarter 2020, the company expects to generate adjusted revenues of \$435-\$470 million. The Zacks Consensus Estimate for first-quarter revenues is pegged at \$395.9 million, lower than the company guided range.

Adjusted gross margin is estimated to be 9-12%. Additionally, it anticipates deployment of 520-570 MW in the same period.

SunPower currently expects to generate adjusted revenues of \$2.1-\$2.3 billion in 2020. The Zacks Consensus Estimate for full-year revenues, pegged at \$2.28 billion, lies above the mid-point of the company guided range.

It currently projects 2020 deployment to be in the range of 2.5-2.8 gigawatts.

Quarter Ending **12/2019**

Report Date	Feb 12, 2020
Sales Surprise	-0.35%
EPS Surprise	76.92%
Quarterly EPS	0.23
Annual EPS (TTM)	-0.33

Recent News

On **Mar 16, 2020**, SunPower was selected to deliver close to 11 megawatts (MW) of direct current (DC) solar power in New England as a result of the region's 14th Forward Capacity Auction (FCA 14). The auction is held annually to ensure that the six states in ISO New England's service territory have enough resources to meet future electricity needs.

Valuation

SunPower Corp's shares are down 12.2% in the year-to-date period and 1.7% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 0.2%, whereas the Zacks Oils-Energy sector is down 40.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 12.5% whereas the sector witnessed a 41.8% decline.

The S&P 500 index is down 11.5% in the year-to-date period and 9.4% in the past year.

The stock is currently trading at 0.5X of forward 12-month sales, which compares to 1.5X for the Zacks sub-industry, 0.7X for the Zacks sector and 3.2X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.7X and as low as 0.3X, with a 5-year median of 0.5X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$7.25 price target reflects 0.6X forward 12-month sales.

The table below shows summary valuation data for SPWR

Valuation Multiples - SPWR					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.54	1.48	0.67	3.19
	5-Year High	1.71	1.66	1.46	3.44
	5-Year Low	0.27	0.57	0.58	2.54
	5-Year Median	0.5	1	0.99	3.01
EV/SALES F12M	Current	0.46	1.25	0.77	2.59
	5-Year High	1.57	2.02	2.17	3.52
	5-Year Low	0.2	0.51	0.71	2.3
	5-Year Median	0.62	1.01	1.34	2.81

As of 05/01/2020

Industry Analysis Zacks Industry Rank: Top 21% (53 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Canadian Solar Inc. (CSIQ)	Neutral	2
First Solar, Inc. (FSLR)	Neutral	3
Sunrun Inc. (RUN)	Neutral	3
SolarEdge Technologies, Inc. (SEDG)	Neutral	3
Renesola Ltd. (SOL)	Neutral	3
Sunworks, Inc. (SUNW)	Neutral	3
Vivint Solar, Inc. (VSLR)	Neutral	3
JinkoSolar Holding Company Limited (JKS)	Underperform	4

Industry Comparison Industry: Solar				Industry Peers		
	SPWR	X Industry	S&P 500	JKS	RUN	SUNW
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	D	-	-	B	F	F
Market Cap	1.15 B	37.85 M	20.61 B	651.39 M	1.56 B	7.82 M
# of Analysts	5	3	14	1	5	1
Dividend Yield	0.00%	0.00%	2.11%	0.00%	0.00%	0.00%
Value Score	C	-	-	B	D	D
Cash/Price	0.40	0.28	0.06	2.83	0.23	0.47
EV/EBITDA	11.06	0.18	11.87	-3.44	-102.64	-1.23
PEG Ratio	NA	1.01	2.47	0.24	5.49	NA
Price/Book (P/B)	53.57	1.24	2.67	0.36	1.15	0.38
Price/Cash Flow (P/CF)	112.39	7.76	10.66	2.46	7.76	NA
P/E (F1)	NA	20.11	19.01	4.74	51.43	NA
Price/Sales (P/S)	0.62	1.19	2.10	0.15	1.81	0.13
Earnings Yield	-3.50%	-0.74%	5.05%	21.08%	1.93%	-44.68%
Debt/Equity	45.59	0.21	0.72	0.23	1.92	0.49
Cash Flow (\$/share)	0.07	-0.02	7.01	6.43	1.81	-1.18
Growth Score	C	-	-	B	F	F
Hist. EPS Growth (3-5 yrs)	NA%	-20.01%	10.88%	-24.55%	-20.01%	NA
Proj. EPS Growth (F1/F0)	15.86%	24.98%	-7.32%	11.83%	20.00%	89.86%
Curr. Cash Flow Growth	209.28%	28.88%	5.92%	54.40%	16.88%	772.39%
Hist. Cash Flow Growth (3-5 yrs)	-47.08%	10.04%	8.55%	6.91%	64.42%	10.06%
Current Ratio	1.54	1.22	1.23	1.01	1.38	1.08
Debt/Capital	97.85%	26.34%	43.84%	18.89%	68.29%	32.82%
Net Margin	1.19%	-7.41%	11.08%	2.99%	3.07%	-15.35%
Return on Equity	NA%	-15.23%	16.44%	8.49%	2.07%	-125.67%
Sales/Assets	0.90	0.59	0.54	0.67	0.16	2.04
Proj. Sales Growth (F1/F0)	-0.76%	0.00%	-1.42%	3.81%	-5.05%	-1.05%
Momentum Score	F	-	-	B	D	D
Daily Price Chg	-4.92%	-0.67%	-2.39%	-2.59%	-5.20%	10.24%
1 Week Price Chg	0.15%	0.07%	-1.74%	-8.33%	9.01%	7.07%
4 Week Price Chg	50.00%	24.64%	17.07%	11.57%	43.16%	43.19%
12 Week Price Chg	-24.92%	-18.35%	-18.53%	-28.90%	-26.66%	-44.43%
52 Week Price Chg	2.08%	-15.77%	-9.82%	-19.00%	-9.13%	-94.17%
20 Day Average Volume	2,628,038	88,943	2,641,413	882,896	2,113,983	404,887
(F1) EPS Est 1 week change	-8.39%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-51.96%	-21.72%	-6.62%	-3.41%	-67.97%	-23.53%
(F1) EPS Est 12 week change	-68.48%	-17.43%	-13.28%	-38.70%	21.15%	-23.53%
(Q1) EPS Est Mthly Chg	-52.27%	-17.66%	-11.97%	50.00%	16.19%	-275.00%

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	C
Momentum Score	F
VGM Score	D

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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