

SunPower Corp. (SPWR)

\$8.65 (As of 01/14/20)

Price Target (6-12 Months): **\$9.25**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/16/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: F

Growth: C

Momentum: C

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. Currently, the company aims to leverage its experience in commercial solar-plus-storage and adapt that to the residential market. However, the company is witnessing a significant reduction in demand within its Power Plant market owing to policy changes in China last year. This increases the pressure on standard efficiency and commodity panel pricing, which adversely impacts factory utilization rates and the suppliers' margin. China's persistent trade and currency disputes with the United States is also hurting the stock. Shares of SunPower have underperformed the industry in the past one year.

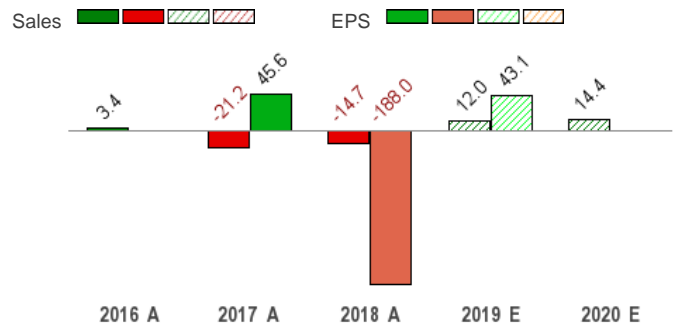
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$16.04 - \$5.06
20 Day Average Volume (sh)	2,812,343
Market Cap	\$1.2 B
YTD Price Change	10.9%
Beta	2.19
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	800.0%
Last Sales Surprise	5.9%
EPS F1 Est- 4 week change	-1.7%
Expected Report Date	02/12/2020
Earnings ESP	34.3%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	375 E	515 E	600 E	675 E	2,326 E
2019	412 A	482 A	492 A	667 E	2,033 E
2018	399 A	447 A	443 A	525 A	1,815 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	-\$0.22 E	-\$0.04 E	\$0.13 E	\$0.19 E	\$0.10 E
2019	-\$0.41 A	-\$0.22 A	\$0.07 A	\$0.13 E	-\$0.41 E
2018	-\$0.20 A	-\$0.01 A	-\$0.29 A	-\$0.21 A	-\$0.72 A

*Quarterly figures may not add up to annual.

P/E TTM	NA
P/E F1	86.5
PEG F1	NA
P/S TTM	0.7

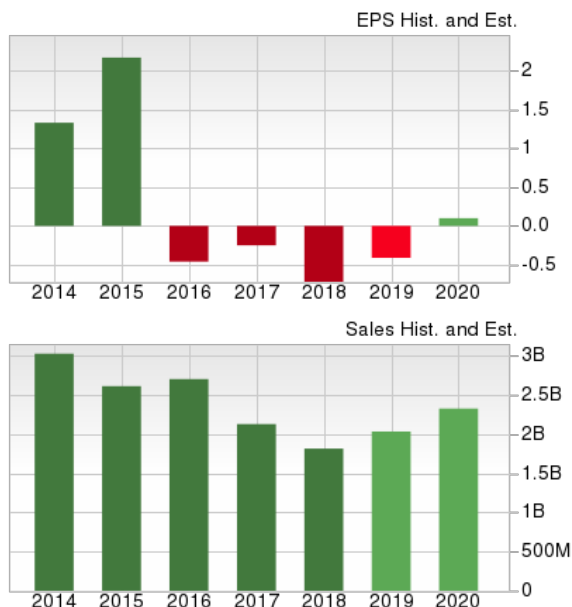
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/14/2020. The reports text is as of 01/15/2020.

Overview

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 witnesses strong demand in the United States and Europe. The company expects further market share expansion in the residential business and continues to allocate resources to drive growth in new homes, particularly.

SunPower posted record bookings in the third quarter, with more than 80% of the 2019 forecast already in backlog. It deployed 586 megawatts (MW) in the third quarter compared with 346 MW in year-ago quarter. This exceeded the midpoint of its expected range of 550-600 MW in the reported quarter, which is an indication of solid prospects for the company's revenues in the days ahead.

SunPower's focus on enhancing its product offering, expanding footprint in global untapped markets and strategies to consolidate its position will drive earnings, going forward.

- ▲ 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. At the end of the third quarter, SunPower had more than 145 MW of storage pipeline and plans to further expand the scope of its residential solar-plus-storage activities in the remainder of 2019. Going ahead, the company plans to expand the footprint of its Equinox and Helix complete solutions in its residential and commercial businesses. To this end, it is imperative to mention that SunPower continues to make significant progress in its Equinox residential storage product and expects to launch it by the end of 2019.
- ▲ To tap the growing demand for solar products, SunPower has already undertaken several initiatives to strengthen its existing operations and scale up production volumes. SunPower's customer base is spread across North America, Europe, the Middle East and Asia. In particular, Europe remains a strong market for the company, wherein it has doubled its share there since 2015 with particular strength in Italy, France and Benelux. Of late, it is witnessing strong demand for its 400 plus watt Maxeon panel in Europe and continued demand growth for its P-Series product line. The company is on track to finalize a potential investment to accelerate the scale up of Maxeon-5 capacity.

SunPower also witnesses strong demand in its Asia-Pacific DG markets, with Australia and Japan exceeding the demand forecast. Moreover, demand for the P-19 products is gaining traction across a number of new South East Asian markets. This must have boosted investors' confidence in this stock.

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.
- ▼ The company is witnessing a significant reduction in demand in its Power Plant market on account of policy changes in China during 2018. The fall in demand increased the pressure on standard efficiency and commodity panel pricing, which is adversely impacting factory utilization rates and the suppliers' margin.
- ▼ Recently, shares of U.S.-based solar stocks are 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, have escalated to greater heights after the Trump administration implemented 10% tariffs on \$300 billion worth of Chinese imports starting Sep 1. In response, China's currency devaluation has now become a threat to U.S.-based companies that do business in country. This, may likely have an unfavorable impact on U.S. solar stocks, including SunPower. Considering this investors may have lost confidence in this stock. Notably, in past one year, SunPower's stock has gained 59.6% compared with the industry's 65.9% growth.

Steep competition, currency exchange risk and policy change in China are headwinds for the company.

Last Earnings Report

SunPower Q3 Earnings Top Estimates, Revenues Rise Y/Y

SunPower Corp. reported adjusted earnings of 22 cents per share in third-quarter 2019 in contrast to the Zacks Consensus Estimate of a loss of a penny. The company had incurred a loss of 29 cents per share in the year-ago quarter.

Excluding one-time adjustments, the company incurred GAAP loss of 11 cents per share compared with the prior-year quarter's loss of 64 cents per share.

The year-over-year uptick can be attributed to solid revenues and gross profit growth witnessed by the company in the third quarter. Operational Results

During the quarter under review, SunPower's adjusted revenues came in at \$491.7 million, surpassing the Zacks Consensus Estimate of \$470 million by 5.9%. Moreover, the top line improved 10.9% from the year-ago quarter's \$443.4 million.

The reported figure also exceeded the company's expectation of \$430-\$470 million in revenues. The year-over-year upside can be primarily attributed to higher revenues from both SunPower Energy Services and SunPower Technologies business units.

Furthermore, the company recorded adjusted gross profit of \$78.2 million, up a massive 274.5% from the year-ago quarter. Its adjusted gross margin expanded 1,240 basis points to 10.1%.

These apart, SunPower deployed 586 megawatts (MW) in the third quarter compared with 346 MW in third-quarter 2018. The company exceeded the midpoint of its expected range of 550-600 MW in the reported quarter.

Financial Position

SunPower had cash and cash equivalents of \$189 million as of Sep 29, 2019, compared with \$309.4 million as of Dec 30, 2018.

Long-term debt was \$48.5 million as of Sep 29, 2019, compared with \$40.5 million as of Dec 31, 2018.

In the first nine months of 2019, net cash outflow from operating activities totaled \$266.2 million compared with cash outflow of \$517.1 million in the first nine months of 2018.

Outlook

For fourth-quarter 2019, the company expects to generate adjusted revenues of \$520-\$720 million. Adjusted gross margin is estimated to be 16-19%. Additionally, it anticipates deployment of 445-645 MW in the same period.

SunPower still expects to generate adjusted revenues of \$1.9-\$2.1 billion in 2019. The Zacks Consensus Estimate for full-year revenues, pegged at \$1.98 billion, lies below the mid-point of the company guided range.

It currently projects 2019 deployment to be in the range of 2.1-2.3 gigawatts (GW) compared with the earlier guided range of 2.05-2.25 GW. However, it maintained its adjusted EBITDA projections for the full year in the range of \$100-\$120 million.

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	5.90%
EPS Surprise	800.00%
Quarterly EPS	0.07
Annual EPS (TTM)	-0.77

Valuation

SunPower Corp's shares are down 24.2% in the last six months period and up 59.6% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 4.9%, while the Zacks Oils-Energy sector slipped 1.5% in the last six months period, respectively. Over the past year, the Zacks sub-industry is up 64.4% whereas the sector is down 0.5%.

The S&P 500 index is up 10.9% in the last six months and 27.5% in the past year.

The stock is currently trading at 0.53X 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 1.83X and as low as 0.27X, with a 5-year median of 0.5X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$9.25 price target reflects 0.57X 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	0.53	1.42	0.89	3.52
	5-Year High	1.83	1.47	1.44	3.52
	5-Year Low	0.27	0.57	0.67	2.54
	5-Year Median	0.5	1	0.99	3
EV/SALES F/12M	Current	0.46	1.56	1.17	3.26
	5-Year High	1.68	1.72	2.16	3.37
	5-Year Low	0.2	0.51	0.93	2.3
	5-Year Median	0.66	1	1.33	2.78

As of 01/14/2020

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



Top Peers

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

Industry Comparison Industry: Solar				Industry Peers		
	SPWR Neutral	X Industry	S&P 500	JKS Outperform	RUN Neutral	SUNW Neutral
VGM Score	D	-	-	F	F	F
Market Cap	1.23 B	23.95 M	24.31 B	1.07 B	1.80 B	6.39 M
# of Analysts	5	3	13	1	4	1
Dividend Yield	0.00%	0.00%	1.76%	0.00%	0.00%	0.00%
Value Score	F	-	-	C	F	F
Cash/Price	0.19	0.19	0.04	1.50	0.21	0.40
EV/EBITDA	-2.93	-0.26	14.08	-0.04	102.66	-2.81
PEG Ratio	NA	0.90	2.06	0.24	16.29	NA
Price/Book (P/B)	NA	1.44	3.33	0.68	1.44	0.64
Price/Cash Flow (P/CF)	343.91	9.28	13.62	3.79	9.35	NA
P/E (F1)	83.10	20.39	18.86	4.78	81.44	NA
Price/Sales (P/S)	0.72	1.67	2.65	0.27	2.11	0.10
Earnings Yield	1.16%	2.29%	5.27%	20.90%	1.24%	-14.05%
Debt/Equity	-5.70	0.17	0.72	0.26	1.89	0.51
Cash Flow (\$/share)	0.03	-0.07	6.94	6.43	1.63	-0.25
Growth Score	C	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	NA%	-13.26%	10.56%	-26.78%	-15.51%	NA
Proj. EPS Growth (F1/F0)	124.27%	42.22%	7.52%	105.24%	-63.05%	63.83%
Curr. Cash Flow Growth	-97.23%	10.68%	14.88%	54.40%	-17.46%	-84.68%
Hist. Cash Flow Growth (3-5 yrs)	-58.29%	9.19%	9.00%	6.91%	48.31%	11.29%
Current Ratio	1.31	1.07	1.23	0.95	1.32	1.07
Debt/Capital	NA%	22.85%	42.99%	20.41%	68.40%	33.74%
Net Margin	-8.24%	-2.42%	11.14%	2.27%	0.93%	-11.81%
Return on Equity	NA%	-15.89%	17.16%	6.70%	0.63%	-74.63%
Sales/Assets	0.81	0.59	0.55	0.68	0.17	2.18
Proj. Sales Growth (F1/F0)	14.43%	16.36%	4.18%	25.51%	1.70%	16.84%
Momentum Score	C	-	-	D	D	A
Daily Price Chg	2.79%	0.00%	0.08%	5.46%	0.20%	6.14%
1 Week Price Chg	5.09%	0.00%	0.39%	-0.22%	3.76%	-4.00%
4 Week Price Chg	9.63%	7.98%	1.93%	9.19%	6.86%	0.83%
12 Week Price Chg	-7.19%	-0.33%	6.50%	66.10%	0.07%	-56.00%
52 Week Price Chg	57.85%	25.44%	22.56%	97.65%	30.07%	-50.60%
20 Day Average Volume	2,812,343	61,855	1,571,506	878,460	1,218,772	569,796
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.69%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-50.94%	-21.99%	-0.52%	30.18%	-45.65%	-134.70%
(Q1) EPS Est Mthly Chg	3.33%	0.00%	0.00%	0.00%	0.00%	0.00%

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	F
Growth Score	C
Momentum Score	C
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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