

SunPower Corp. (SPWR)

\$7.04 (As of 06/17/20)

Price Target (6-12 Months): **\$7.50**

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:B

Value: C

Growth: C

Momentum: B

Summary

SunPower continues to witness growth in residential and commercial markets. It 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. Bookings in the first quarter increased 10% year over year and its new homes backlog expanded to more than 45,000 homes. However, shares of SunPower have underperformed the industry in the past year. 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. It also anticipates the economic downturn caused by the pandemic to affect product demand, thereby impacting operating results.

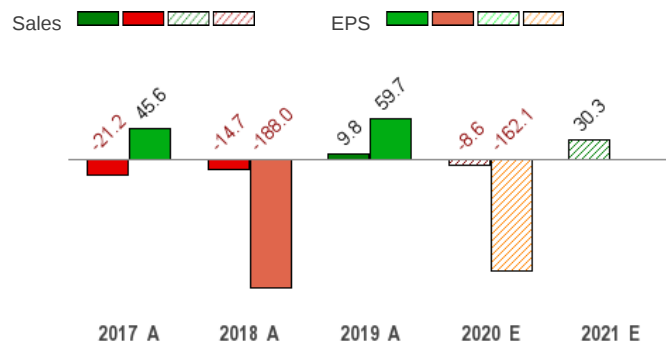
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$16.04 - \$4.03
20 Day Average Volume (sh)	2,934,630
Market Cap	\$1.2 B
YTD Price Change	-9.7%
Beta	2.22
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Solar
Zacks Industry Rank	Top 26% (67 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	52.4%
Last Sales Surprise	2.8%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/29/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	474 E	542 E	607 E	669 E	2,373 E
2020	454 A	315 E	377 E	501 E	1,821 E
2019	412 A	482 A	492 A	607 A	1,992 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.06 E	\$0.09 E	\$0.00 E	\$0.04 E	\$0.09 E
2020	-\$0.10 A	-\$0.41 E	-\$0.19 E	-\$0.07 E	-\$0.76 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

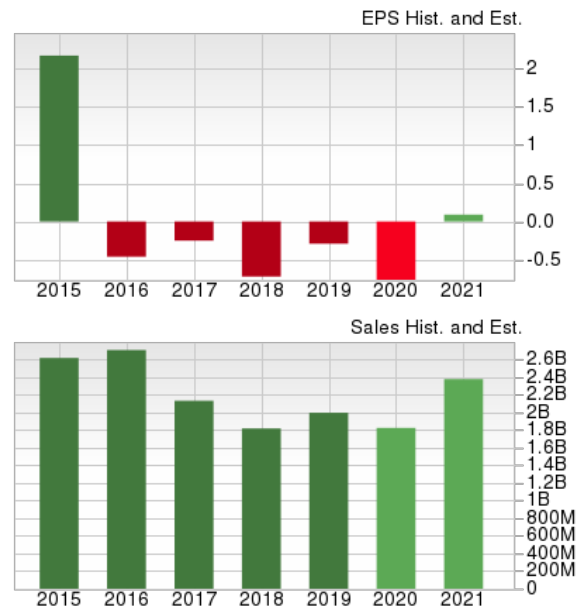
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/17/2020. The reports text is as of 06/18/2020.

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. SunPower delivered a strong performance in the first quarter, primarily driven by its U.S. residential business where installations rose 50% year over year alongside delivering strong gross margins. Bookings increased 10% year over year and its new homes backlog expanded to more than 45,000 homes.

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

Meanwhile, the company boasts a significant opportunity in the commercial direct market as many corporations are expanding their green energy procurement activities. Backed by strong demand in the commercial business, SunPower won awards worth more than \$500 million in 2019. Moreover, revenues from commercial customers increased 7% year over year during the first quarter, primarily led by an increase in its commercial EPC contracts.

- ▲ 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 average attach rates being more than 30% as of March 31, 2020. 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 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 Moxon 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.

In May, SunPower's planned Moxon Solar Technologies (SunPower's manufacturing operations) spin-off received key regulatory approval from China's State Administration for Market Regulation. Hence, the company expects to complete the planned company split by the end of June 2020.

- ▲ SunPower's cash and cash equivalents at the end of first-quarter 2020 was \$241 million. The company's long-term debt as of Mar 31, 2020, stands at \$882 million, down sequentially from \$980 million. Although the long-term debt level lies much above the company's cash reserve, its current debt worth \$136 million as of Mar 31, 2020, remains lower than the cash reserve. This reflects the company's capability to duly meet its obligations, at least over the short run. Notably, this is good news in terms of the company's solvency level during this crisis period when the world economy is at standstill, thanks to the effects of the coronavirus outbreak.

Moreover, the company's current ratio as of Mar 31, 2020, is 1.45, which being more than 1, indicates that the company has sufficient capital in hand to meet its short-term obligations. Further, the company's interest coverage came in at 3.7 at end of the first quarter of 2020, up from 1.5 at the end of the fourth quarter of 2019. All these favorable financial ratio levels make us optimistic about the company's ability to meet debt obligations in the near future. Such stable liquidity position enables SunPower to take important cash deployment decisions.

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.
- ▼ In recent times, 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. Going ahead, the 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 year, SunPower's stock has lost 32.7% against the industry's 27.7% growth.
- ▼ SunPower's first-quarter performance saw the impact of both supply and demand reductions caused by the COVID-19 disruption in its core markets beginning March 2020. The company anticipates that the economic downturn caused by the COVID-19 pandemic will affect both existing and prospective demand for its products, thereby negatively impacting its operating results, specifically through a decline in demand for its product and service offerings. Further, its operations and supply chain have been adversely impacted as production in factories in France, Malaysia, Mexico, the Philippines and the United States have been stopped due to the pandemic.

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

The company expects significant economic disruptions from COVID-19 potentially for the remainder of the year. Per a report by Wood Mackenzie, if coronavirus containment measures continue to curtail movement of goods and people through the second quarter alongside the economic downturn, the market impact could trim Wood Mackenzie's 2020 global energy storage deployments forecast by 19%. This, in turn, may hit SunPower hard. Looking ahead, as the duration and severity of the pandemic remains uncertain, such economic crisis may have a significant adverse impact on the company's overall results.

Last Earnings Report

SunPower Q1 Earnings & Revenues Surpass Estimates

SunPower Corp. incurred adjusted loss of 10 cents per share in first-quarter 2019, narrower than the Zacks Consensus Estimate of a loss of 21 cents. The company had incurred a loss of 41 cents per share a year ago.

Excluding one-time adjustments, the company incurred a GAAP loss of a penny per share, narrower than the prior-year quarter's loss of 63 cents.

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	2.82%
EPS Surprise	52.38%
Quarterly EPS	-0.10
Annual EPS (TTM)	-0.02

Operational Results

During the quarter under review, SunPower's adjusted revenues came in at \$454.4 million, surpassing the Zacks Consensus Estimate of \$442 million by 2.8%. Moreover, the top line improved 10.4% from the year-ago quarter's \$411.6 million. The year-over-year upside in revenues can be primarily attributed to higher sales of solar power systems, components and solar services.

Furthermore, total operating expenses in the quarter increased 2% to \$82.9 million from that in the first quarter of 2019. Notably, higher research and development and sales, general and administrative expenses led to the increase.

Apart from these, SunPower made deployments of 580 megawatts (MW) in the first quarter compared with 455 MW deployed in first-quarter 2019, reflecting 27.5% year-over-year shipment growth. The company surpassed its expected range of 520-570 MW in the reported quarter.

Financial Position

SunPower had cash and cash equivalents of \$205.4 million as of Mar 29, 2020, compared with \$423 million as of Dec 29, 2019.

Long-term debt was \$98.1 million as of Mar 29, 2020, compared with \$113.8 million as of Dec 31, 2019.

In the first quarter, net cash outflow from operating activities totaled \$179.5 million compared with the year-ago quarter's \$149 million.

Q2 Outlook

For second-quarter 2020, the company expects to generate adjusted revenues of \$290-\$330 million. Adjusted gross margin is estimated to be 0-6%. Additionally, it anticipates deployments of 340-400 MW in the same period.

Recent News

On **Jun 16, 2020**, SunPower Corp. announced that it anticipates closing the planned spin-off of Maxeon Solar Technologies during the third quarter 2020. The company also reiterated its second quarter 2020 guidance due to continued improvements in its U.S. and international Distributed Generation (DG) business.

Valuation

SunPower Corp's shares are down 9.7% in the year-to-date period and 32.7% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 31.1%, whereas the Zacks Oils-Energy sector is down 33.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 27.7% whereas the sector witnessed a 35.3% decline.

The S&P 500 index is down 3% in the year-to-date period but up 6.7% in the past year.

The stock is currently trading at 0.6X of forward 12-month sales, which compares to 2X for the Zacks sub-industry, 0.8X for the Zacks sector and 3.5X 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 \$7.5 price target reflects 0.61X 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	0.57	1.97	0.77	3.5
	5-Year High	1.67	1.97	1.46	3.5
	5-Year Low	0.27	0.57	0.58	2.53
	5-Year Median	0.5	1	0.99	3.02
EV/SALES F12M	Current	0.61	2.22	1.14	3.21
	5-Year High	1.49	2.32	2.17	3.51
	5-Year Low	0.2	0.51	0.71	2.28
	5-Year Median	0.61	1.01	1.32	2.83

As of 06/17/2020

Industry Analysis Zacks Industry Rank: Top 26% (67 out of 253)



Top Peers

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

Industry Comparison Industry: Solar				Industry Peers		
	SPWR	X Industry	S&P 500	JKS	RUN	SUNW
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	A	F	D
Market Cap	1.20 B	30.12 M	21.90 B	698.49 M	2.32 B	12.97 M
# of Analysts	5	3.5	14	1	5	1
Dividend Yield	0.00%	0.00%	1.92%	0.00%	0.00%	0.00%
Value Score	C	-	-	A	D	F
Cash/Price	0.19	0.18	0.06	2.41	0.17	0.68
EV/EBITDA	11.53	0.39	12.65	-2.03	-123.18	-1.06
PEG Ratio	NA	1.43	2.98	0.25	19.80	NA
Price/Book (P/B)	59.57	1.78	3.05	0.39	1.93	1.36
Price/Cash Flow (P/CF)	107.65	10.67	11.68	2.54	10.67	NA
P/E (F1)	NA	26.83	21.53	5.09	185.48	NA
Price/Sales (P/S)	0.61	1.30	2.31	0.15	2.65	0.21
Earnings Yield	-10.80%	-1.40%	4.36%	19.66%	0.52%	-96.15%
Debt/Equity	43.99	0.20	0.77	0.23	2.26	0.05
Cash Flow (\$/share)	0.07	-0.02	7.01	6.24	1.81	-1.18
Growth Score	C	-	-	A	F	A
Hist. EPS Growth (3-5 yrs)	NA%	-24.55%	10.87%	-24.55%	-28.25%	NA
Proj. EPS Growth (F1/F0)	-162.76%	17.63%	-10.58%	11.83%	-50.48%	63.77%
Curr. Cash Flow Growth	209.28%	19.68%	5.46%	49.75%	16.88%	772.39%
Hist. Cash Flow Growth (3-5 yrs)	-47.08%	10.04%	8.55%	15.10%	64.42%	10.06%
Current Ratio	1.45	1.27	1.29	1.01	1.49	1.18
Debt/Capital	97.78%	22.17%	45.14%	18.89%	72.25%	4.81%
Net Margin	5.62%	-6.17%	10.53%	3.51%	1.40%	-18.12%
Return on Equity	NA%	-12.15%	16.06%	10.19%	0.98%	-89.19%
Sales/Assets	0.98	0.59	0.55	0.71	0.16	2.13
Proj. Sales Growth (F1/F0)	-3.32%	0.00%	-2.64%	3.81%	-6.81%	-17.10%
Momentum Score	B	-	-	A	C	F
Daily Price Chg	-8.21%	-0.89%	-0.67%	-2.52%	-4.03%	32.20%
1 Week Price Chg	-7.88%	-2.73%	-7.25%	-1.11%	-4.07%	-12.71%
4 Week Price Chg	-1.40%	8.33%	5.95%	-5.37%	21.25%	81.65%
12 Week Price Chg	5.55%	12.69%	23.90%	-3.70%	58.63%	114.88%
52 Week Price Chg	-32.70%	-24.55%	-4.54%	-32.18%	5.64%	-84.30%
20 Day Average Volume	2,934,630	317,327	2,597,851	1,284,676	1,432,477	908,955
(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%	0.00%	0.00%	-85.71%
(F1) EPS Est 12 week change	-372.94%	-31.43%	-14.52%	-3.41%	-28.28%	-129.41%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	28.57%

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	B
VGM Score	B

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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