

## SunPower Corp. (SPWR)

**\$9.94** (As of 02/24/20)

Price Target (6-12 Months): **\$11.00**

Long Term: 6-12 Months

**Zacks Recommendation:** **Outperform**

(Since: 02/23/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

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

**2-Buy**

Zacks Style Scores:

VGM:C

Value: C

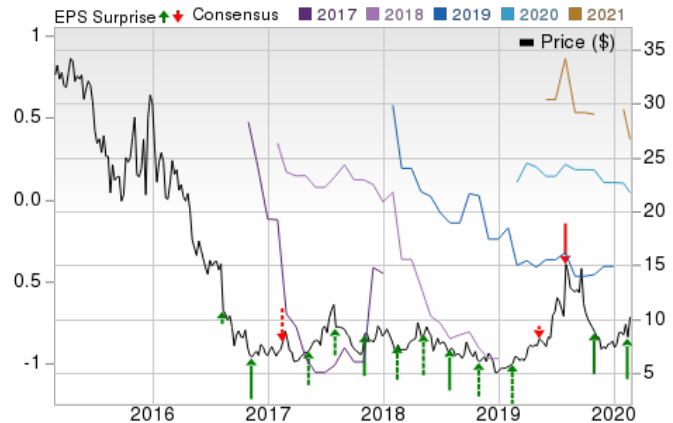
Growth: C

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. The company 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 and acquired bookings worth 26 megawatts in the fourth quarter. However, shares of SunPower have underperformed the industry in the past year. It is also facing challenges in terms of project execution of commercial direct business, which may impact its near-term profitability.

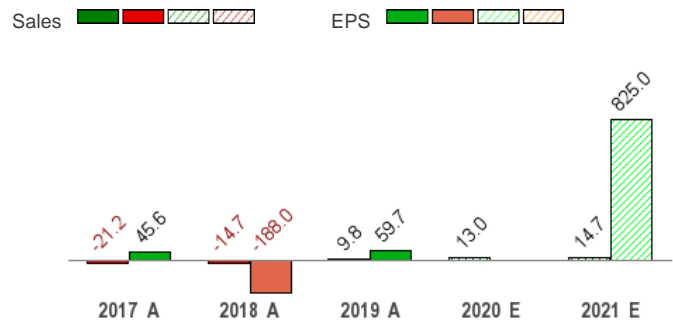
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$16.04 - \$5.96</b>
20 Day Average Volume (sh)	<b>5,118,505</b>
Market Cap	<b>\$1.4 B</b>
YTD Price Change	<b>27.4%</b>
Beta	<b>2.18</b>
Dividend / Div Yld	<b>\$0.00 / 0.0%</b>
Industry	<b>Solar</b>
Zacks Industry Rank	<b>Top 16% (40 out of 255)</b>

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



Last EPS Surprise	<b>76.9%</b>
Last Sales Surprise	<b>-0.4%</b>
EPS F1 Est- 4 week change	<b>18.5%</b>
Expected Report Date	<b>05/14/2020</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>NA</b>
P/E F1	<b>248.5</b>
PEG F1	<b>NA</b>
P/S TTM	<b>0.8</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	486 E	577 E	639 E	810 E	2,581 E
2020	453 E	530 E	591 E	752 E	2,251 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	\$0.37 E
2020	-\$0.22 E	-\$0.06 E	\$0.03 E	\$0.13 E	\$0.04 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.

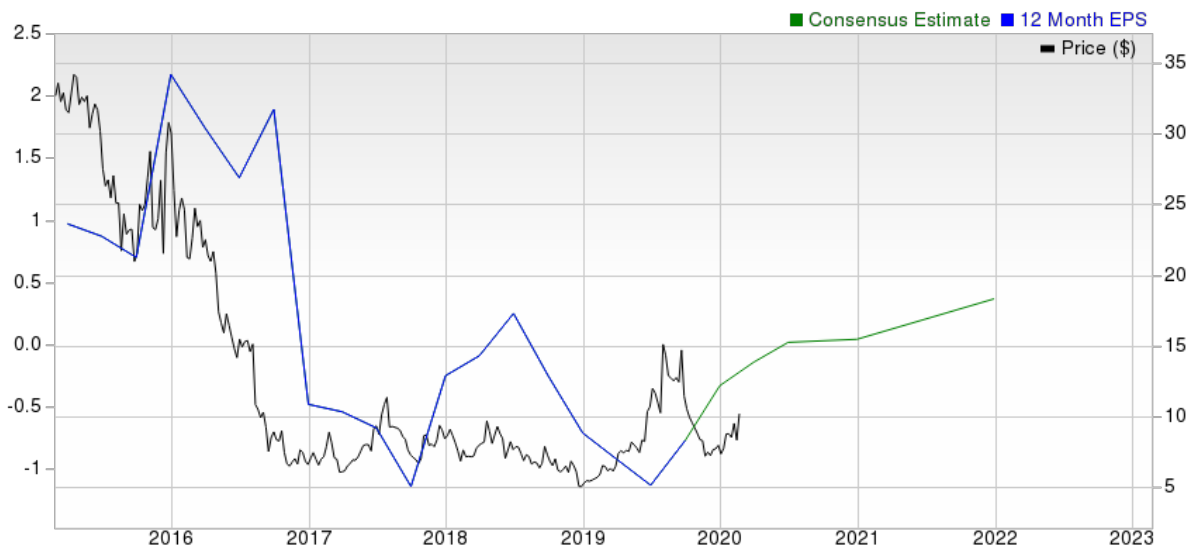
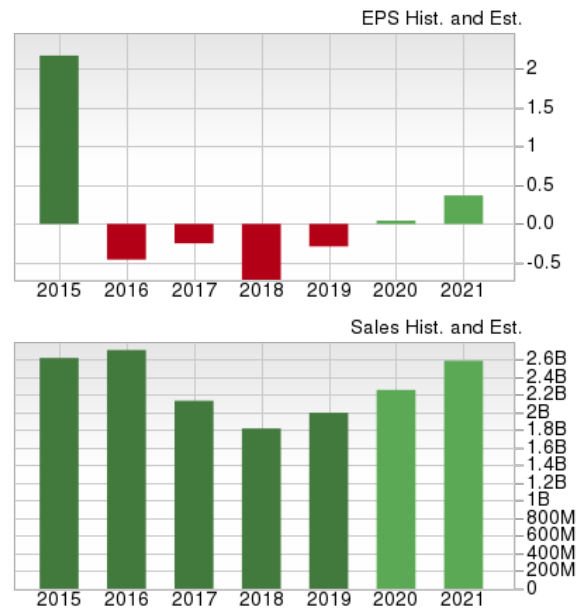
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/24/2020. The reports text is as of 02/25/2020.

## 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.



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## 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 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.

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## Risks

- 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.
  - 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 year, SunPower's stock has gained 54.1% compared with the industry's 76% growth.
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## 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

## Valuation

SunPower Corp's shares are down 24.4% in the last six months period and up 54.1% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 26.1%, whereas the Zacks Oils-Energy sector is down 5.5% in the past six months period, respectively. Over the past year, the Zacks sub-industry is up 76% whereas the sector witnessed a 22.6% decline.

The S&P 500 index is up 12.6% in the past six months period and 14.6% in the past year.

The stock is currently trading at 0.6X of forward 12-month sales, which compares to 1.77X for the Zacks sub-industry, 0.77X for the Zacks sector and 3.39X 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 Outperform recommendation indicates that the stock will perform better than the market. Our \$11 price target reflects 0.7X 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	0.6	1.77	0.77	3.39
	5-Year High	1.83	1.77	1.45	3.43
	5-Year Low	0.27	0.57	0.67	2.54
	5-Year Median	0.5	1	0.99	3
EV/SALES F12M	Current	0.51	1.56	1.18	3.32
	5-Year High	1.68	1.72	2.16	3.39
	5-Year Low	0.2	0.51	0.94	2.3
	5-Year Median	0.63	1	1.34	2.8

As of 02/24/2020

## Industry Analysis Zacks Industry Rank: Top 16% (40 out of 255)



## Top Peers

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

Industry Comparison Industry: Solar				Industry Peers		
	SPWR Outperform	X Industry	S&P 500	JKS Neutral	RUN Neutral	SUNW Neutral
<b>VGM Score</b>	<b>C</b>	-	-	<b>B</b>	<b>F</b>	<b>F</b>
Market Cap	1.42 B	34.08 M	23.50 B	1.17 B	2.61 B	3.70 M
# of Analysts	4	2.5	13	1	6	1
Dividend Yield	0.00%	0.00%	1.83%	0.00%	0.00%	0.00%
<b>Value Score</b>	<b>C</b>	-	-	<b>A</b>	<b>F</b>	<b>F</b>
Cash/Price	0.31	0.16	0.04	1.24	0.14	0.66
EV/EBITDA	12.18	0.31	13.56	0.39	124.60	-1.87
PEG Ratio	NA	0.90	2.02	0.26	20.75	NA
Price/Book (P/B)	65.94	1.86	3.20	0.75	2.09	0.37
Price/Cash Flow (P/CF)	128.93	12.84	13.05	4.13	13.55	NA
P/E (F1)	248.50	24.06	18.56	5.22	103.73	NA
Price/Sales (P/S)	0.76	1.31	2.60	0.29	3.06	0.06
Earnings Yield	0.40%	1.62%	5.38%	19.17%	0.95%	-24.29%
Debt/Equity	45.59	0.25	0.70	0.26	1.89	0.51
Cash Flow (\$/share)	0.08	-0.07	7.03	6.43	1.63	-0.25
<b>Growth Score</b>	<b>C</b>	-	-	<b>D</b>	<b>F</b>	<b>F</b>
Hist. EPS Growth (3-5 yrs)	NA%	-13.26%	10.85%	-26.78%	-15.51%	NA
Proj. EPS Growth (F1/F0)	114.66%	60.73%	6.90%	105.24%	-41.82%	63.83%
Curr. Cash Flow Growth	209.28%	14.77%	6.78%	54.40%	-17.46%	-84.68%
Hist. Cash Flow Growth (3-5 yrs)	-47.08%	9.19%	8.38%	6.91%	48.31%	11.29%
Current Ratio	1.54	1.07	1.22	0.95	1.32	1.07
Debt/Capital	97.85%	25.30%	42.37%	20.41%	68.40%	33.74%
Net Margin	1.19%	-3.75%	11.57%	2.27%	0.93%	-11.81%
Return on Equity	NA%	-16.01%	16.80%	6.70%	0.63%	-74.63%
Sales/Assets	0.90	0.59	0.55	0.68	0.17	2.18
Proj. Sales Growth (F1/F0)	15.85%	18.41%	4.03%	25.51%	3.71%	16.84%
<b>Momentum Score</b>	<b>C</b>	-	-	<b>D</b>	<b>A</b>	<b>B</b>
Daily Price Chg	-2.55%	-2.55%	-2.98%	-2.43%	0.82%	-4.44%
1 Week Price Chg	22.30%	3.37%	-0.94%	6.71%	2.47%	-8.26%
4 Week Price Chg	18.47%	4.76%	-0.94%	36.93%	35.52%	-28.90%
12 Week Price Chg	36.54%	11.00%	1.75%	42.74%	63.32%	-39.53%
52 Week Price Chg	57.03%	-1.08%	10.97%	29.45%	40.87%	-82.57%
20 Day Average Volume	5,118,505	136,066	2,001,782	1,600,253	3,814,345	738,514
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	2.56%	0.00%
(F1) EPS Est 4 week change	18.48%	0.00%	-0.05%	0.00%	2.56%	0.00%
(F1) EPS Est 12 week change	17.58%	-2.81%	-0.21%	0.00%	10.82%	-156.69%
(Q1) EPS Est Mthly Chg	3.45%	0.00%	-0.49%	0.00%	16.67%	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	C
Growth Score	C
Momentum Score	C
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.

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