

SunPower Corporation

NasdaqGs:SPWR

Analyst: Dominick Iachetta

Sector: Energy

BUY

Price Target: \$32.72

Key Statistics as of 11/06/2015

Market Price:	\$28.74
Industry:	Solar Energy Equipment
Market Cap:	\$3.75 B
52-Week Range:	\$18.25-35.11
Beta:	1.89

Thesis Points:

- Offer the most efficient solar panel on the market
- Emphasis on commercial segment will lead to increase in margins and revenue growth
- Profitability will increase in near future

Company Description:

SunPower Corporation is a solar products and services company headquartered in Silicon Valley. SunPower designs, manufactures and markets high performance solar electric panels to a diversified global portfolio including residential, commercial and utility markets. SunPower's business mission is to be the leader in stimulating the adoption of efficient and practices in the energy industry.



Thesis

I am recommending a BUY on SPWR based on a strong, growth-oriented industry outlook, best in class solar panel technology, expansion into the business segment with their new product, Helix, and estimate-beating financial performance.

Industry Outlook

Demand for solar energy is expected to rise by year end in 2015. Solar energy consumption is diversifying from European locations, like Italy and Germany, towards Asia. China and Japan are now the lead expectations for growth within the industry. Along with Asian consumers, other emerging markets are opening up to the industry for the first time, including Brazil, Mexico and Chile. In response to this increase in global demand, solar companies are expected to expand production for the first time in two years. Global energy installations may reach up to 50-60 gigawatts by year end, up from 44 gigawatts in 2014. Overall, the global economy is beginning to make the transition to alternative energy options and solar presents one of the most cost effective solutions.

	2011	2012	2013	2014e	2015e
Germany	7.5	7.6	3.3	1.9	1.2-1.6
Rest of Europe	12.4	9.6	7.5	6.9-8.0	8.0-10.1
USA	1.9	3.3	4.8	6.5-6.8	8.0-9.2
Japan	1.3	2.5	6.8	9.0-10.0	9.5-11.5
India	0.4	0.9	1.0	1.0	1.9-2.3
China	2.5	4.8	12.9	12.5-13.5	14.0-16.0
Other Regions	2.0	3.3	3.7	6.1-7.1	7.1-9.6
Total:	28	32	40	44-48	50-60

Industry Leading Efficiency

SPWR is ready to take advantage of the increase in global demand for solar energy due to the fact that they offer the most efficient solar panels on the market. SPWR's panels currently convert 21.5% of the sunlight they come in contact with into usable electricity, which is best in class. It takes 25 conventional solar panels to produce the same amount of energy as 18 SPWR panels. Although customers pay a premium for these extremely efficient panels, they ultimately result in increased savings over their 40 year useful life.

Company	Production Module Efficiency
SunPower	21.5% (X-Series)
SunEdison	17.7% (Silvantis R)
Trina Solar	17.7% (HoneyM Plus)
JA Solar	17.4% (JAM6R)
Yingli Solar	17.2% (Panda60)
Renesola	16.9% (Mono-275)
JinkoSolar	16.8% (JKM275)
Canadian Solar	16.6% (CS6V)

SPWR's industry leading efficiency is made possible by its Maxeon solar cell. The Maxeon solar cell is fundamentally different than the standard cell for many different reasons. To start, Maxeon's thick copper backing adds massive strength and drastically reduces the effects of corrosion by 85% when compared to conventional cells. Solar cells lose power over time due to corrosion so this helps SPWR's products last longer than the competition. Also, Maxeon allows for more flexibility because it generates more electricity from a smaller area. This allows customers to expand energy production by simply utilizing additional roof space by adding more panels if necessary. Finally, aesthetically, Maxeon is more attractive than its competitors due to style and function alterations and blend much more naturally into rooftops. Overall the capability of the Maxeon cell, along with its top of the line 25 year warranty, SPWR offers the highest performing solar panel available on the market.

Commercial Expansion

Over the past 5 years, the residential sector has dominated the solar industry. SPWR has made solar much more accessible to millions of people by offering cost-saving energy solutions. Looking out into the future, commercial, as opposed to residential, solar will present large, value creating opportunities for SPWR. Currently, the gross margins made in the power plant and residential fields are extremely higher than those in the commercial business for SPWR.

Power Plant	16.50%
Commercial	6.40%
Residential	23.30%

This inability to capitalize on commercial business will soon change with the introduction of SPWR's newest product, Helix. Launched on October 26, Helix is the world's first fully integrated commercial solar solution. Helix combines solar power production and energy management to be an extremely innovative offering by the company which will lead to long term growth.

Launched on October 26, Helix is a pre-engineered modular system that is built to last and easy to install. It produces 60% more energy from the same square space than a conventional solar panel, at the same time, leading the industry in environmental sustainability. It is the first and only solar panel to receive the Cradle to Cradle Silver designation. Helix also includes a plug and play system – the only one of its type in the US commercial solar simplify the installation process, reduce labor costs and increase long term reliability. Along with the industry leading solar technology, Helix also has an energy management feature called EnergyLink. EnergyLink is a comprehensive energy intelligence software which quantifies immediate and lifetime savings from solar and identifies and alerts users on demand peaks and saving opportunities. Overall, Helix will allow SPWR, for the first time, to capitalize on the ever expanding demand for solar solutions in the commercial segment. One of Helix's first customers, Bed Bath & Beyond, will begin construction on eight location in early 2016. The success of this venture will be imperative for SPWR to expand Helix to more companies and finally become the top player commercial solar energy sphere. Going forward, SPWR has partnered with Apple to build two solar power projects in April of 2016. Many US companies with locations in China, like Apple, are investing in solar energy to offset the environmental impact of their business operations. This partnership, and Helix in general, offer a new route to China for SPWR.

Financials

SPWR's third quarter earnings, released on October 28, have caused the stock to increase 16.7% in the last week. Revenue for the quarter finished at \$441 million which topped estimates by \$12.5 million. EPS also significantly beat estimates finishing at \$0.13 for the quarter. This recent spike in the stock still leaves room for growth based on SPWR's strong fourth quarter guidance. The company is now expected to generate \$1.25-\$1.3 billion in revenue for the quarter, up from previous consensus

estimates of \$1.22 billion. Full year EBITDA guidance has been increased to \$500 million, up from \$425 million to \$475 million. From the shareholders' perspectives, the full year EPS target is now \$1.95 to \$2.05, up from the previous estimate of \$1.56. Overall, SPWR's very strong recent financial performance will continue when the full effects of their new projects are realized within the coming year.

Conclusion

Overall I am recommending a strong BUY on SPWR. The company has positioned itself to take advantage of the increase in global demand for the service they provide. Their best in class efficiency and new revenue generating projects partnered with increased profitability leave this stock undervalued. On November 12, SPWR is hosting their annual analyst day and will release additional forward looking statements regarding finances and future projects, which will be yet another catalyst for a rise in the stock price. In conclusion, the transition to solar energy is no longer the wave of the future but rather a cost effective, sustainable alternative which can be utilized today. SPWR is a company that is ready to capitalize on the new prospects throughout the industry and will increase profitability within the coming months.

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SunPower Corporation **spwr** Analyst: **Dom Iachetta** Current Price: **\$28.74** Intrinsic Value: **\$28.37** Target Value: **\$32.72** Dividend Yield: **0%** 1-y Return: **13.86%** **NEUTRAL**

General Info		Peers	Market Cap.	Management		Management			
Sector	Information Technology	Taina Solar Limited	\$969.65	Professional		Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Industry	Semiconductors and Semiconductor Equipment	First Solar, Inc.	\$6,021.84	Werner, Thomas	Chairman, Chief Executive Officer and Presid	\$4,900,212	\$8,845,546	\$4,986,614	
Last Guidance	October 28, 2015	Yingli Green Energy Holding Co. Ltd.	\$130.82	Boynnton, Charles	Chief Financial Officer and Executive Vice Pre	\$2,000,593	\$2,738,314	\$1,914,990	
Next earnings date	February 18, 2016	JA Solar Holdings Co., Ltd.	\$432.56	Neese, Marty	Chief Operating Officer	\$1,947,675	\$2,814,730	\$1,949,494	
Market Data		Canadian Solar Inc.	\$1,317.45	Bodensteiner, Lisa	Executive Vice President, General Counsel an	\$0	\$0	\$1,549,939	
Enterprise value	\$4,678.70	JinkoSolar Holding Co., Ltd.	\$804.46	Wenger, Howard	President of Business Units	\$1,973,733	\$2,997,043	\$1,996,389	
Market Capitalization	\$291,281.98	Maxim Integrated Products, Inc.	\$11,527.97	Brandenz, Eric	Chief Accounting Officer, Senior Vice Preside	\$0	\$0	\$0	
Daily volume	65.52	ReneSola Ltd.	\$144.26	Past Earning Surprises					
Shares outstanding	136.59	Cree, Inc.	\$2,551.40	Revenue		EBITDA	Norm. EPS	Standard Error of "Surprise"	
Diluted shares outstanding	144.25	Xilinx Inc.	\$12,239.72	Last Quarter	2.92%	343.78%	NM	170.43%	
% shares held by institutions	57.59%	Current Capital Structure		Last Quarter-1	-22.49%	-1.34%	5.88%	8.51%	
% shares held by insiders	0.56%	Total debt/Common Equity (LTM)	0.61	Last Quarter-2	-2.93%	61.67%	62.50%	21.67%	
Short interest	4.45%	Cost of Borrowing (LTM)	4.20%	Last Quarter-3	0.59%	-12.85%	4.00%	5.14%	
Days to cover short interest	4.56	Estimated Cost of new Borrowing	7.91%	Last Quarter-4	12.52%	32.69%	25.00%	5.88%	
52 week high	\$35.11	Altman's Z	1.53	Standard error	5.8%	66.1%	13.6%	24.56%	
52-week low	\$18.25	Estimated Debt Rating	C	Standard Error of Revenues prediction	5.8%	Industry Outlook (Porter's Five Forces)			
5y Beta	3.00	Current levered Beta	2.32	Imputed Standard Error of Op. Cost prediction	63.8%	Bargaining Power of Suppliers (25th Percentile), Bargaining Power of Customers (14th Percentile), Intensity of Existing Rivalry (67th Percentile), Threat of Substitutes (100th Percentile), Threat of New Competition (17th Percentile), and Overall (69th Percentile).			
6-month volatility	47.09%	LTM WACC	11.91%	Imputed Standard Error of Non Op. Cost prediction	NM				

Convergence Assumptions		General Assumptions		Items' Forecast Assumptions			Other Assumptions	
Money market rate (as of today)		0.32%		Base year (LTM)	Convergence period (Market)	Adjustment per year	Tobin's Q	80%
Risk-Free rate (long term estimate)		2.92%		Operating Cash/Rev.	0.00%	1.90%	Excess cash reinvestment	Money market rate
Annual increase (decrease) in interest rates		0.1%		NWV/Rev.	19.23%	11.82%	Other claims on the firm's assets	\$0.00
Marginal Tax Rate		37.5%		NPPE/Rev.	49.59%	48.76%	Capitalization	
Country Risk Premium		6.0%		Dpr/NPPE	10.94%	18.36%	100% of all rent expenses are capitalized and amortized 'straightline' over 10 years	
				NOPAT MARGIN	6.84%	12.71%	100% of all R&D expenses are capitalized and amortized 'straightline' over 10 years	
				Op. Exp./Rev.	86.31%	77.75%	E&P expenses are not capitalized	
				SBC/Rev.	2.37%	1.10%	SG&A expenses are not capitalized	
				Rent Exp./Rev.	0.00%	1.55%	Valuation Focus	
				R&D/Rev.	3.47%	6.47%	DCF Valuation	100%
				E&D/Rev.	0.00%	2.04%	Relative valuation	0%
				SG&A/Rev.	11.85%	20.80%	Distress Valuation	0%
				ROIC	12%	21.15%	Monte Carlo Simulation Assumptions	
				EV/Rev.	1.45x	1.97x	Revenue Growth deviation	Normal (0%, 1%)
				EV/EBITDA	16.11x	9.68x	Operating expense deviation	Normal (0%, 1%)
				Debt/Equity	61%	90%	Continuing Period growth	Triangular (5.333%, 6%, 3.665%)
				Unlevered beta	1.68	0.89	Country risk premium	Triangular (2.91%, 3%, 3.09%)
				Dividends/REV	0%	3%	Intrinsic value σ(e)	\$0.09
							1-year target price σ(e)	\$0.10

Valuation									
Forecast Year	ROIC	WACC	Invested Capital	Implied Enterprise Value	Net Claims on Assets and Dilution Costs	Shares Outstanding	Price per Share	Monte Carlo Simulation Results	
LTM	12.2%	11.9%	\$2,297.04	\$4,286.81	\$505.26	136.59	\$27.88		
FY2015	10.5%	11.8%	\$2,485.41	\$4,737.96	\$385.73	136.59	\$32.35		
FY2016	10.2%	11.3%	\$2,858.75	\$5,394.13	\$439.58	136.59	\$35.76		
FY2017	9.4%	11.0%	\$2,993.97	\$5,854.47	\$530.43	136.59	\$39.62	The 3σ(e)-adjusted intrinsic value is \$28.37; the 3σ(e)-adjusted target price is \$32.72; and the analysts' median target price is \$34.69	
FY2018	9.6%	10.7%	\$3,134.92	\$6,335.64	\$272.32	136.59	\$43.17		
FY2019	9.7%	10.3%	\$3,281.85	\$6,830.50	\$213.77	136.59	\$46.74		
FY2020	9.8%	9.9%	\$3,434.96	\$7,341.04	\$153.83	136.59	\$50.32		
FY2021	9.9%	9.6%	\$3,594.51	\$7,864.59	\$91.99	136.59	\$53.90		
FY2022	10.0%	9.2%	\$3,760.74	\$8,398.02	\$27.96	136.59	\$57.45		
FY2023	10.1%	8.8%	\$3,933.91	\$8,933.44	-\$38.46	136.59	\$60.90	Revenue growth variations account for 95.9% of total variance	
FY2024	10.2%	8.5%	\$4,114.28	\$9,470.78	-\$107.42	136.59	\$64.22	Risk premium's variations account for 2.5% of total variance	
Continuing Period	21.1%	8.5%	\$2,259.93					Operating expenses' variations account for 1.4% of total variance	
								Continuing period growth variations account for 0.2% of total variance	