

SunEdison, Inc.

NYSE:SUNE

Analyst: Jarret Reaume

Sector: Technology

BUY

Price Target: \$31.77

Key Statistics as of 3/17/2015

Market Price:	\$24.22
Industry:	Semiconductor Equipment
Market Cap:	\$6.66B
52-Week Range:	\$13.09 – 24.70
Beta:	4.87

Thesis Points:

- Will Control Solar Energy in Emerging Markets
- Planned and Executed Installations
- Acquisition of First Wind
- Opportunity due to Perceived Risk from Financials
- Vertical Integration in Solar Energy

Company Description:

SunEdison, Inc. develops, manufactures, and sells silicon wafers to the semiconductor industry. The company operates through three segments: Solar Energy, TerraForm Power, and Semiconductor Materials. The Solar Energy segment provides solar energy services that integrate the design, installation, financing, monitoring, operations, and maintenance portions of the downstream solar market. It also manufactures polysilicon, silicon wafers, and solar modules. As of December 31, 2014, this segment had interconnected approximately 974 solar power systems representing 2.35 gigawatts of solar energy generating capacity. SunEdison markets its products to corporations, utilities, governments and chip manufacturers.



Planned and Executed Installations

Thesis

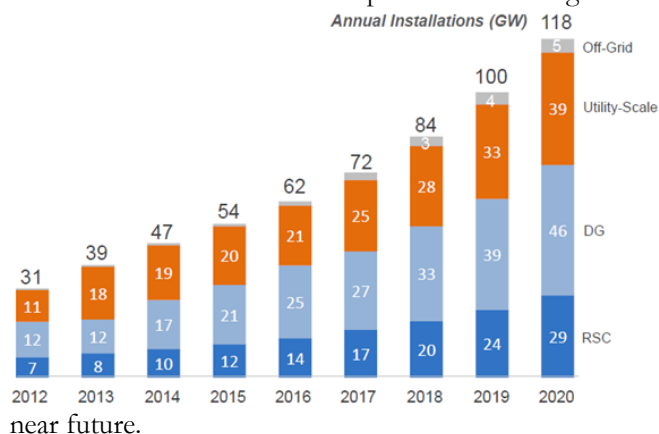
SunEdison, Inc. is the current leader in an industry that has a fantastic outlook for the next several years. The solar and wind energy fields look to experience rapid growth and the companies that take advantage of that will reap the benefits. SunEdison is in position to capitalize on the need for renewable energy and has the infrastructure to meet demand. The market is not pricing in the potential that SunEdison has to take their business to a new level in the next few years. Because of this underestimation, SUNE is underpriced.

Will Control Solar Energy in Emerging Markets

There are markets in the world that look to need a considerable amount of solar energy between now and 2022. Regions like India, South America, and the Middle East are developing areas that will demand a lot of power in the near future. It also just happens that the geographical location of these regions is very conducive to solar irradiation. These regions are very close to the equator, which will give the areas a good reason to choose solar energy.

SunEdison has plans to invest in these markets that should result in rapid growth. The firm is planning projects in markets such as Brazil, India, and China. None of SunEdison's competitors have similar plans which are the start of a huge competitive advantage for SunEdison. Not only is SunEdison planning its projects in the correct markets, it is making unprecedented investments in these markets that will make returns extremely high. For example, the firm plans to construct a \$4 billion Indian panel manufacturing facility with the capacity to produce 7.5 gigawatts of modules per year. To put this in perspective, this facility would double the current largest solar manufacturing firm's total capacity.¹ This is a great example of the scope and magnitude of SunEdison's future plans. If the company can carry through with these projects in a cost-effective manner, SunEdison will dominate the best markets for solar energy demand.

While the firm hasn't yet become profitable, it has set itself up for profitability once demand increases. The company has invested over \$3 billion over the last two years in order to install solar energy panels. The chart below shows how many installations SunEdison has made and also the number it plans on installing in the



The chart shows installations made in gigawatts, which is the capacity of energy created. It is a positive trend with growth increasing each year. Therefore, capital expenditures will have to increase even more for SunEdison between now and 2020. While this will delay free cash flows for the short term, it is necessary for the company to spend in order to meet future demand for solar energy. If the company cannot do so, the aforementioned emerging markets will look elsewhere.

Right now, the market is not taking into account the number of installations SunEdison has made to date. It does negatively affect the companies' financials because ROIC is negative and free cash flows are negative. However, the invested capital is necessary for the firm to be ready to meet future demand. Once SunEdison can slow down its installations, ROIC will increase because the invested capital will decrease greatly.

Acquisition of First Wind

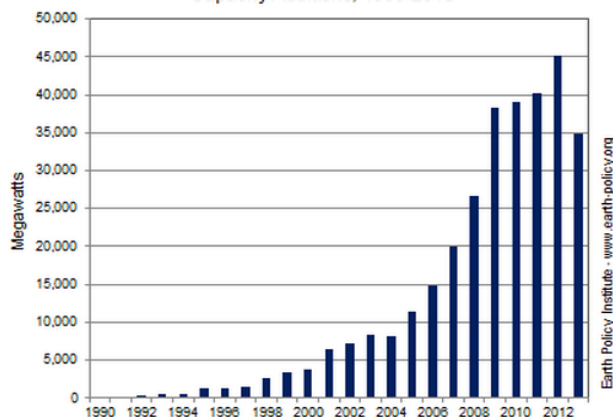
¹ "SunEdison's Prospects Remain Bright". *Seeking Alpha*. Accessed March 17, 2015.

Another area that SunEdison is planning to grow is wind energy. The company's acquisition of First Wind Holdings LLC for \$1,898 million is a prime example of the company's desire to diversify its services. The



acquisition was completed on January 29, 2015. The acquisition makes SunEdison the largest renewable energy company in the world. The company knows that solar generation is the more lucrative area in the long-term, wind energy is a growing industry that is worth getting into. This is a smart acquisition for SunEdison because it now holds a leading developer in a different area from its main business. Therefore, the success of First Wind will not hinder the success of SunEdison's solar energy endeavors. The chart below explains the growth in wind energy and the value First Wind will

World Net Annual Installed Wind Power Capacity Additions, 1990-2013



Source: GWEC, Worldwatch
deliver to SunEdison.

This industry provides existing business with room to grow for expansion. SunEdison CEO, Ahman Chatila, said about the decision to acquire First Wind, "This acquisition enhances SunEdison's global offering and adds a talented wind development and asset management team. By combining SunEdison's leading solar development platform with First Wind's platform, SunEdison is well positioned to drive significant growth in global renewable energy markets, and deliver

immediate shareholder value."² This quote shows the firm's commitment to set itself up to capitalize on growing demand.

Opportunity due to Perceived Risk from Financials

SunEdison's financial statements currently show losses due to where the company is in its life cycle. The firm is nowhere near maturity and is not yet profitable. This is due to the massive installations and other capital expenditures that have been made. These massive investments are far too large to be offset by revenue at this stage because demand is not yet there. This interesting situation can be viewed two different ways.

First, it can be seen as too risky to invest in right now. Although there is reason to believe demand for solar and other renewable energy will increase dramatically, it is not a given. Since a drastic increase in demand is needed for SunEdison's stock price to increase, there is definitely risk involved.

Second, SunEdison's situation can be viewed as an opportunity. The solar and wind energy industry is likely not near its potential. The chart on the second page shows that installations for solar panels will grow even faster in the near future. SunEdison would not be making all of these installations if it did not expect a major increase in demand.

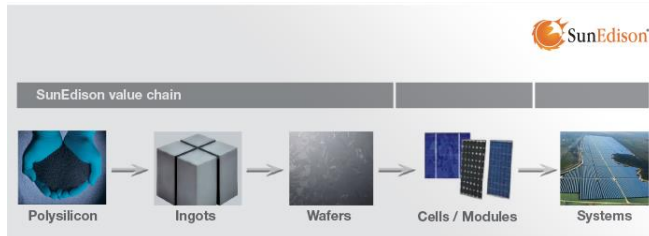
It is a smart idea to get in on SunEdison now because the market is pricing in risk based on where the company is in its life cycle. SunEdison has put itself in great position to capitalize on growing demand. It has already established itself in emerging markets such as India and South America and looks to increase its presence in the United States and Europe.

Once demand increases, revenue should grow rapidly year over year (Refer to pro forma statement at end of report). Once capital expenditures from installing panels slow down, SunEdison will be poised to generate free cash flows at a higher rate than its competitors who lack the foresight to penetrate the emerging markets.

² "SunEdison's Prospects Remain Bright". *Seeking Alpha*. Accessed March 17, 2015.

Vertical Integration in Solar Energy

Another reason SunEdison is poised to create value in the near future is its position in the value chain of solar energy. SunEdison processes its own silicon, manufactures solar modules, and builds large power plants to house the energy. The image below shows the different aspects of solar energy SunEdison controls.



This vertical integration will cut operating costs for solar energy for the company. According to the pro forma statement, it is estimated that operating costs compared to revenue will fall consistently for the next several years. SunEdison's vertical integration gives it another competitive advantage over its peers. Not only will the firm be able to supply solar power to all the emerging markets, it will do so while cutting costs.

Conclusion

SunEdison, Inc. is a recommended buy based on future revenue potential. The market is currently underpricing the stock because the company has not yet turned profits. However, the semiconductor industry and solar energy industry will grow dramatically in the near future. The company has set itself up for this growth by making more installations in growing markets that its competitors have not. SunEdison will dominate regions near the equator like South America who will be clamoring for solar energy soon. As these areas develop, the demand for power will grow. SunEdison will be the first choice because the energy is renewable and easy to set up considering installations have already been made.

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SunEdison, Inc.	SUNE	Analyst Jarret Reaume	Current Price \$24.46	Intrinsic Value \$28.42	Target Value \$31.77	Dividend Yield 0%	Target Return 29.88%	NEUTRAL			
General Info		Peers		Market Cap.		Management					
Sector	Information Technology	SunPower Corporation	\$4,332.28	Professional		Title	Comp. FY2012	Comp. FY2013	Comp. FY2014		
Industry	conductors and Semiconductor Equip	First Solar, Inc	\$6,066.66	Chatila, Ahmad	Chief Executive Officer, Presiden	\$	4,237,956.00	\$	7,077,058.00	\$	-
Last Guidance	May-08-2014	Lam Research Corporation	\$12,582.79	Wuebbels, Brian	Chief Financial Officer, Chief Ad	\$	1,449,446.00	\$	1,521,542.00	\$	-
Next earnings date	NM	Veeco Instruments Inc	\$1,271.00	Ranhoff, David	Senior Vice President and Presid	\$	1,476,543.00	\$	1,348,418.00	\$	-
Market Data		Current Capital Structure		Historical Performance							
Enterprise value	\$14,236.45	Total debt/market cap	51.05%	SUNE		Peers		Industry		All U.S. firms	
Market Capitalization	\$6,661.85	Cost of Borrowing	8.33%	Growth	-11.4%	20.7%	8.3%	6.0%			
Daily volume	7.16	Interest Coverage	-94.27%	Retention Ratio	16.2%	154.8%	56.4%	61.6%			
Shares outstanding	272.36	Altman Z	0.21	ROIC	10.5%	22.9%	22.9%	11.8%			
Diluted shares outstanding	269.20	Debt Rating	D	EBITDA Margin	0.6%	23.3%	13.5%	13.7%			
% shares held by institutions	119.34%	Levered Beta	2.38	Revenues/Invested capital	91.0%	103.9%	92.3%	202.3%			
% shares held by insiders	0.55%	WACC (based on market value weights)	10.81%	Excess Cash/Revenue	31.9%	49.5%	54.7%	18.5%			
Short interest	30.62%	Past Earning Surprises		Unlevered Beta	1.36	2.06	1.37	0.95			
Days to cover short interest	8.20	Revenue	EBITDA	Norm. EPS	TEV/REV	2.5x	1.9x	2.4x			
52 week high	\$24.47	Last Quarter	-8.4%	Last Quarter-1	-11.1%	TEV/EBITDA	14.5x	12.2x	11.3x		
52-week low	\$13.09	Last Quarter-2	-1.7%	Last Quarter-3	-2.7%	TEV/EBITDA	20.4x	16.4x	14.6x		
5y Beta	2.67	Last Quarter-4	-10.6%	Non GAAP Adjustments							
6-month volatility	63.34%	Proforma Assumptions		SG&A Capitalization	0%	N/A	N/A	N/A			
Valuation		Period	Rev. Growth	Adj. Op. Cost/Rev	Revenue	NOPLAT	Invested capital	UFCE			
Operating Cash/Cash	0.0%	LTM	24%	98%	\$2,484.40	-\$784.01	\$8,238.73	-\$784.01			
Unlevered Beta	1.40	LTM+1Y	4%	85%	\$2,583.78	-\$182.57	\$8,637.32	-\$581.16			
Rev/Invested Capital	100.0%	LTM+2Y	30%	81%	\$3,358.91	\$48.60	\$8,750.63	-\$64.70			
Continuing Period Revenue Growth	10.0%	LTM+3Y	35%	78%	\$4,534.53	\$203.77	\$8,855.03	\$99.37			
Long Term ROIC	12.5%	LTM+4Y	40%	78%	\$6,348.34	\$389.61	\$8,948.91	\$295.72			
Invested Capital Growth	Equals to Maintenance	LTM+5Y	43%	78%	\$9,046.38	\$656.14	\$9,013.57	\$591.48			
Justified TEV/REV	2.0x	LTM+6Y	43%	78%	\$12,891.09	\$1,060.59	\$9,209.21	\$864.96			
Justified TEV/EBITDA	12.0x	LTM+7Y	10%	78%	\$14,180.20	\$1,147.38	\$9,303.64	\$1,052.94			
Justified TEV/EBITDA	15.0x	LTM+8Y	10%	78%	\$15,598.22	\$1,255.22	\$9,374.13	\$1,184.73			
Justified TEV/UFCE	20.0x	LTM+9Y	10%	78%	\$17,158.04	\$1,378.09	\$9,430.49	\$1,321.73			
Monte Carlo Simulation Assumptions		Monte Carlo Simulation Results									
Revenue Variation	Base	Stdev	Min	Max	Distribution	Intrinsic Value		1y-Target			
Op. Costs Variation	0	10%	N/A	N/A	Normal	Mean est.	\$29.17	\$32.52			
Market Risk Premium	6%	N/A	5%	7%	Normal	σ(e)	\$0.25	\$0.25			
Long term Growth	10%	N/A	-1%	21%	Triangular	3 σ(e) adjusted price	\$28.42	\$31.77			
Terminal Value	0	0.1	N/A	N/A	Triangular	Current Price	\$24.46				
						Analysts' median est.		\$30.69			