

SunPower Corporation

NASDAQ:SPWR

Analyst: Guillaume Valentin

Sector: Technology

BUY

Price Target: \$43.91

Key Statistics as of 04/20/2015

Market Price:	\$34.05
Industry:	Semiconductors
Market Cap:	\$4.48B
52-Week Range:	\$22.75 - \$42.07
Beta:	3.13

Thesis Points

- Opportunities for market growth
- Innovation to meet demand
- Yieldco with First Solar
- Growth in the commercial market

Company Description

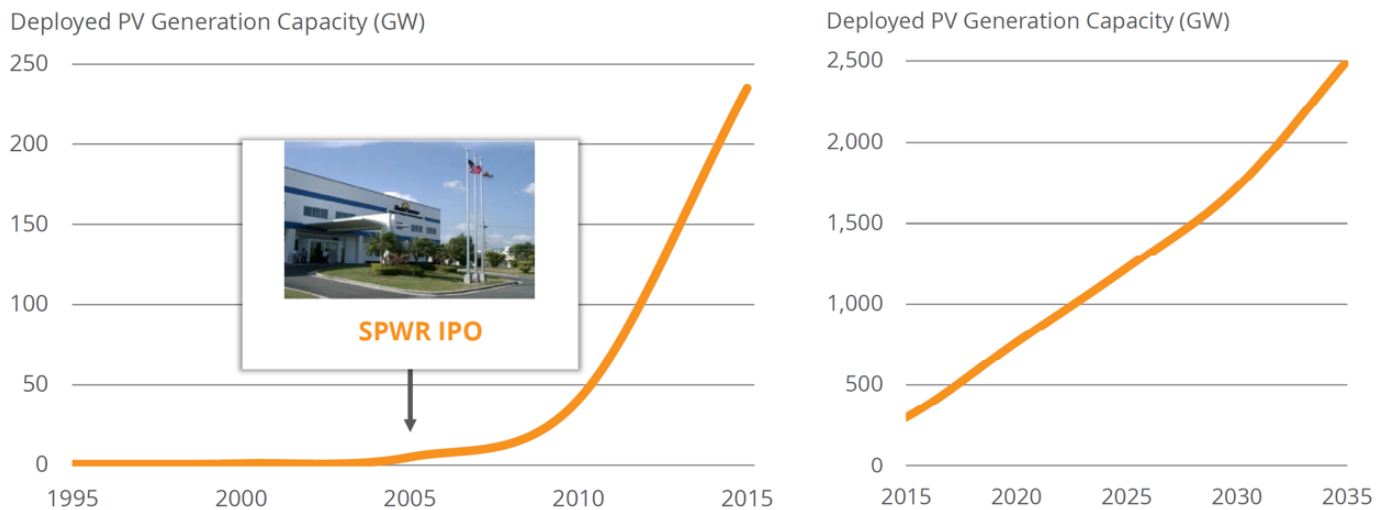
SunPower Corporation, a subsidiary of Total Energies Nouvelles Activités USA, was incorporated in 1985 and is headquartered in San Jose, California. SunPower Corporation designs, manufactures, and delivers solar systems to residential, commercial, and utility-scale power plant customers worldwide. The company offers solar power components. It also offers rooftop and ground-mounted solar power systems. In addition, the company offers operations and maintenance services. Further, it leases solar power systems to residential customers; and sells inverters manufactured by third parties. The company serves investors, electric utilities, independent power producers, commercial and governmental entities or residential owners.



Thesis

SunPower Corporation designs and manufactures solar equipment in order to produce renewable electricity. The company has been a pioneer in an industry that has seen 30% CAGR increase in sales over the past two decades. In the future, the solar industry is expected to skyrocket. SunPower has strong brand recognition and will take advantage of this growing market share. The demand has been particularly increasing in the commercial market. The company produces solar panels that can output more power within the same surface. Finally, SunPower developed a Yieldco with First Solar, which will generate value in the future.

Industry overview



The first graph above displays the solar industry performance over the past two decades. It shows the total photovoltaic (PV) capacity deployed in Gigawatts (GW) all over the world. We can see that the total power of solar installations kept increasing every single year since 1995, to reach slightly less than 250GW at the beginning of 2015. SunPower is a pioneer in the solar industry. It was first traded in November 2005, at a time when this industry was at the beginning of its exponential growth. The United States alone represent about only 8% of the global market with 20GW. Currently, about 4 million homes in the United States are equipped with solar panels, which represents only 3% of the total U.S. homes. However, America is in overall more and more interested in solar power because 32% of new electric generating capacity came from solar in 2014.¹ The solar industry employs about 175,000 workers, which is more than Google, Apple, Facebook and Twitter combined. The solar market grew at a 30% CAGR over the past 20 years, to reach about \$120 billion in sales in 2014. The industry is highly fragmented because there are no company than has more than 8% of the total market share. Therefore, product differentiation is essential. Globally, the current installed electricity generation capacity is about 6,000GW, which means that there is a huge room for the solar industry to take market share of the conventional and traditional electricity production, such as nuclear or coal power plants. This is exactly what is expected to happen during the next two decades. Indeed, solar power capacity is expected to be multiplied by 10 during the next 20 years, to reach about 2,500GW. In the same time, global electricity production is expected the only double, which means that solar energy will have a greater market share. The photovoltaic supply will meet about 10% of the total global electricity demand in the foreseeable future. The cumulative development of photovoltaic systems will account for about \$5 trillion.

Yieldco with First Solar

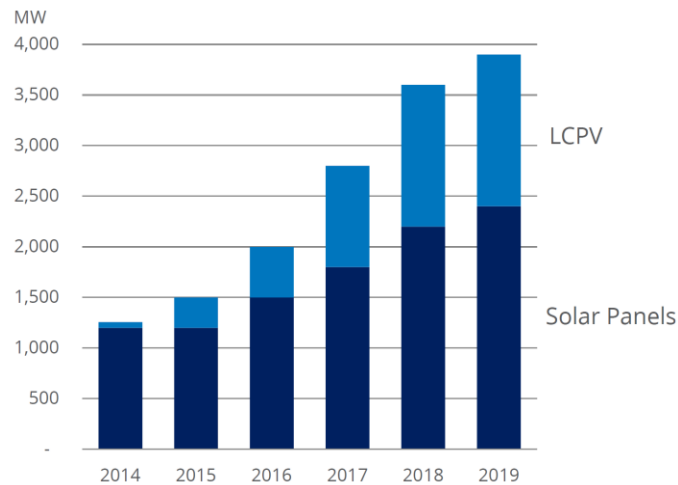
On April 20, 2015, First Solar and SunPower, long rivals in developing and selling solar panels and power plants, announced they plan to jointly form a yieldco. This has been very popular recently among renewable energy companies to raise low-cost capital to fund new projects. A yieldco is a “dividend growth-oriented public company, created by a parent company that bundles renewable and/or conventional long-term contracted operating assets in order to generate predictable cash flows.”²

¹ <http://www.seia.org/research-resources/us-solar-market-insight>

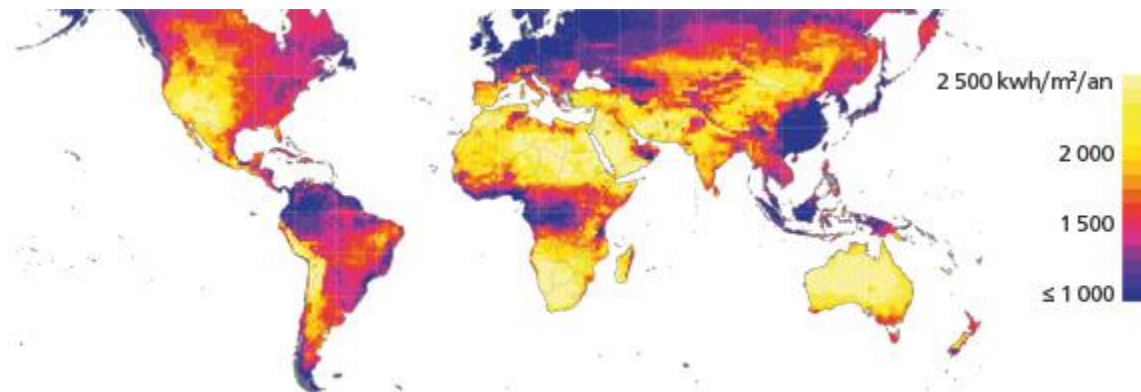
² <https://financere.nrel.gov/finance/content/deeper-look-yieldco-structuring>

The creation of a single company from two competitive companies will create will generate lower yields and therefore faster dividend per share growth.³ Since the two companies announced their intention to create a yieldco very recently, the details of the deals are not yet know, but analyst are confident that this new entity will create value. The new Yieldco will be traded on the NASDAQ and will be called 8point3 Energy Partners. This new entity will be able to pay off debt from building solar panels. On the day of the announcement, shares of SunPower has risen about 11.50%, which means that investors have understood the synergy that will emerge in the future.

Innovation to meet demand

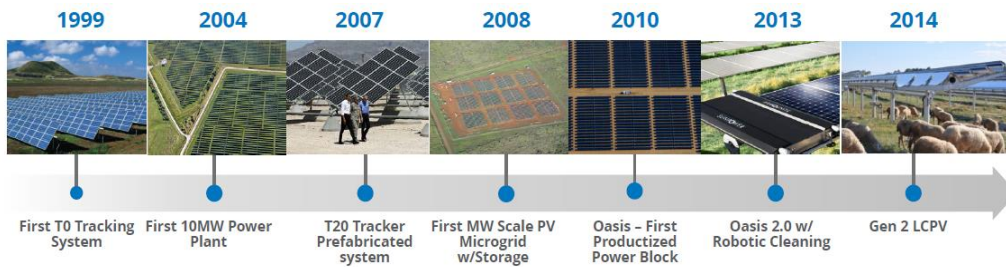


In order to answer to this expected increase in demand, SunPower will multiply its production capacity by almost four times by 2019. Currently, almost 100% of its products comes from traditional solar panels. In 5 years, the company's production will be split between solar panels and LCPV. LCPV cells do not need to be actively cooled. This technology has a high acceptance angle and can be installed with or without solar tracker under proper circumstance.



The map above show the sunshine of one square meter per year in each country around the world. We can see that most of the northern hemisphere countries have an average to low sunshine compares to tropical and southern countries. However, these countries are the most developed and the ones that would be able to afford solar panels. By investing in the LCPV technology SunPower will be able to target more efficiently these countries. SunPower clearly believes that its LCPV technology is suited to certain environmental and market conditions. In order to answer to this demand, the company announced that it will deploy this technology in the U.S. and China. The company announced the commencement of the construction of a manufacturing plant of LCPC solar panel in Philippines in February 2015. This plant will be operational during 2017.

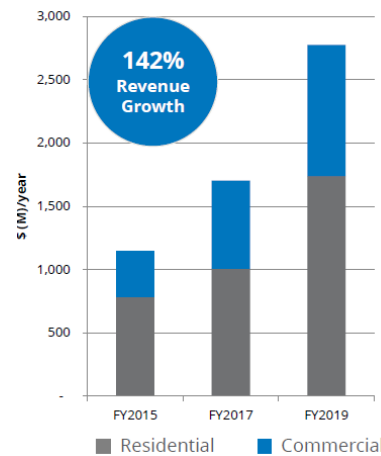
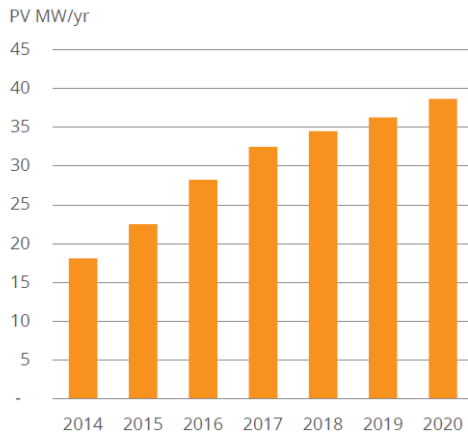
³ <http://www.benzinga.com/analyst-ratings/analyst-color/15/02/5273658/why-a-first-solar-sunpower-yieldco-is-a-two-headed-drago>



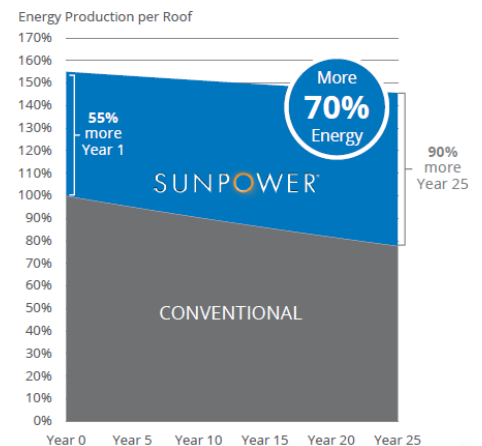
The timeline above shows the historical commitment to innovation from SunPower. We can see that the company has been developing new products often over the past decade. The company has been providing the market with innovating solutions that meet customers' expectations. There are significant innovations from SunPower that require attention. For example, the company recently developed a robotic solar panel cleaning. The company has been able to target key market opportunities and issues with current products. This solution can increase productivity up to 15% per year. It uses 90% less water and is 3 times faster than hand cleaning. This is one of the many other innovations that it worth talking about in this report.

Growth in the commercial market

Industry Shipments to Commercial Customers



SunPower vs. Conventional Solar¹ on the Same Roof



Six years from now, the commercial photovoltaics market is expected to double. Indeed, the chart above shows the expected shipment of photovoltaics (in terms of MW) per year. In 2014, the industry shipped about 18MW of solar panel used in commercial applications. This number is expected to grow to almost 40MW by the end of 2020. SunPower has several advantages among the industry to take advantage of this market growth. The company is able to produce solar panels that can produce more power with the same surface than any of its competitors. Additionally, SunPower offers the longest warranty in the industry on its solar panels. Indeed, the company is very confident about the quality and the reliability of its panels. The company supply panels and systems, financing solutions, design, installation and other indirect services. A survey by the U.S. Consumer Benchmark conducted in 2014 shows that SunPower has the highest customers' satisfaction among the industry. Additionally, it ranks higher in most of the criteria that makes products attractive and customers satisfied. Competitors only rank higher in special promotions and discounts. This shows that SunPower's competitors have to make huge discounts in order to attract more customers. SunPower, however, is the best company ranked in terms of quality/price and efficiency/quality. The last chart above illustrates the higher efficiency of SunPower solar panels at any time in point from installation to the end of the life of the panel. We can see that at the time of the installation, where a conventional solar panel has a base of 100%, SunPower's solar panels produce up to more than 50% more power than them. This gap keeps increasing over time. We can see that after a 25 years period of time, SunPower solar panels became 70% more efficient than traditional ones. Obviously, the efficiency of any solar panels decreases over time. However, this drop is much more important for conventional panels than for SunPower ones. This will lead to much higher net present values for any company that wants to product electricity from solar panels. Already 13 of the 25 largest commercial buyers of solar buyers are SunPower customers. Most famous customers include Walmart, FedEx, HP, USPS or Toyota. Additionally, the company announced recently that it has developed a partnership with Apple. Apple chose SunPower to produce two solar plants in China totaling 40MW.

SunPower already partnered with Apple in the creation of six power plants in California, Nevada and North Carolina, totaling 90MW. The company is expected to more than double the number of commercial customers by the end of 2019. This will lead to a tremendous increase in revenues. Currently, SunPower generates about \$1 billion in revenues. In a 4-year time frame, the company sees its revenues to climb to more than \$2.5 billion, which represents a 142% increase from now.

Financials highlight



The company has been maintaining a stable debt to equity ratio. Currently, its total debt represents about 25% of its market capitalization, which is not very high. In terms of margins and revenues, SunPower sees a bright future. The EBITDA growth in both commercial and residential markets is expected to grow at a 50 CAGR over the next 4 years. In the same time, the company will increase its production capacity during the same period. In the future, commercial solar panels will represent a bigger part of the total market segmentation of the company. For next year, the company's gross margin is expected to increase to 21% to 23% and EBITDA to \$400 million to \$450 million. The company will be more and more profitable and will generate more value.

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SunPower Corporation		SPWR	Analyst GUILLAUME VALENTIN	Current Price \$34.28	Intrinsic Value \$35.99	Target Value \$43.91	Divident Yield 0%	Target Return 1-y Return: 28.11%	NEUTRAL
<u>General Info</u>		<u>Peers</u>		<u>Market Cap.</u>		<u>Management</u>			
Sector	Information Technology	First Solar, Inc.	\$6,242.99	Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014	
Industry	Semiconductors and Semiconductor Equipment	Trina Solar Limited	\$1,105.24	Werner, Thomas	Chairman, Chief Executive Offia	\$ 4,900,212.00	\$ 8,845,546.00	\$ -	-
Last Guidance	Feb-24-2015	Canadian Solar Inc.	\$1,911.34	Boynton, Charles	Chief Financial Officer and Execu	\$ 2,000,593.00	\$ 2,758,314.00	\$ -	-
Next earnings date	4/30/2015	Yingli Green Energy Holding Co. Ltd.	\$367.16	Neese, Marty	Chief Operating Officer	\$ 1,947,675.00	\$ 2,814,730.00	\$ -	-
<u>Market Data</u>		JA Solar Holdings Co., Ltd.	\$472.87	Richards, Douglas	Executive Vice President of Adm	\$ 1,542,833.00	\$ 2,164,128.00	\$ -	-
Enterprise value	\$4,933.31	Analog Devices, Inc.	\$19,763.38	Wenger, Howard	President of Business Units	\$ 1,973,733.00	\$ 2,997,043.00	\$ -	-
Market Capitalization	\$453.51	ReneSola Ltd.	\$181.25	Branderiz, Eric	Chief Accounting Officer, Senior	\$ -	\$ -	\$ -	-
Daily volume	0.41	Skyworks Solutions Inc.	\$18,010.78	<u>10y-Median Performance</u>					
Shares outstanding	131.48	Maxim Integrated Products, Inc.	\$9,782.06	<u>SPWR</u>	<u>Peers</u>	<u>Industry</u>	<u>All U.S. firms</u>		
Diluted shares outstanding	162.75	SolarWorld AG	\$240.50	Growth	15.1%	8.0%	7.4%	7.4%	
% shares held by institutions	73.98%	<u>Current Capital Structure</u>			ROIC	9.5%	7.2%	12.8%	14.3%
% shares held by insiders	0.67%	Total debt/market cap	29.52%	NOPLAT Margin	8.5%	12.7%	14.7%	10.4%	
Short interest	4.48%	Cost of Borrowing	3.00%	REV./Invested Capital	111.3%	56.5%	87.4%	137.4%	
Days to cover short interest	2.77	Interest Coverage	202.89%	Excess Cash / Rev.	N/A	49.5%	13.5%	12.9%	
52 week high	\$42.07	Altman Z	2.03	Total Cash / Rev.	30.6%	49.5%	12.3%	15.2%	
52-week low	\$22.75	Debt Rating	BB	Unlevered Beta	2.03	2.13	1.28	0.95	
5y Beta	2.88	Levered Beta	3.62	TEV/REV	0.9x	2.2x	3.2x	2.5x	
6-month volatility	47.96%	WACC (based on market value weights)	8.36%	TEV/EBITDA	0.0x	24.4x	11.5x	13.1x	
<u>Past Earning Surprises</u>				PE	32.8x	29.3x	26.0x	23.5x	
	<u>Revenue</u>	<u>EBITDA</u>	<u>Norm. EPS</u>	P/BV	0.0x	1.8x	1.6x	2.2x	
Last Quarter	0.6%	-12.9%	4.0%	<u>Non-GAAP Adjustments in estimates computations</u>					
Last Quarter-1	12.5%	32.7%	25.0%	Operating Leases Capitalization	100%	Straightline	10 years		
Last Quarter-2	4.2%	10.6%	12.0%	R&D Exp. Capitalization	100%	Straightline	10 years		
Last Quarter-3	2.0%	0.0%	53.1%	Expl./Drilling Exp. Capitalization	0%	N/A	N/A		
Last Quarter-4	12.3%	0.0%	67.9%	SG&A Capitalization	0%	N/A	N/A		
<u>Proforma Assumptions</u>		<u>\$</u>	<u>Rev. Growth</u>	<u>Adj. Op. Cost/Rev</u>	<u>Forecast</u>				
Money market rate as of today	0.52%	LTM	20.7%		<u>Invested Capital</u>	<u>NOPLAT Margin</u>	<u>ROIC</u>	<u>WACC</u>	
Annual increase (decrease) in interest rates	0.1%	NTM	12.4%		\$2,166.93	9%	11.9%	8.4%	
Yield Spread acceleration	1.2	NTM+1	8.2%		\$2,371.71	13%	21.0%	9.4%	
Marginal Tax Rate	37.5%	NTM+2	6.1%		\$2,502.99	14%	21.5%	9.5%	
Risk-Free rate	2.5%	NTM+3	5.0%		\$2,606.71	14%	22.0%	9.6%	
Tobin's Q	1.00	NTM+4	4.5%		\$2,693.97	14%	22.4%	9.8%	
Op. Cash/Rev.	2%	NTM+5	4.3%		\$2,770.57	14%	22.8%	9.9%	
Growth in PPE	NPPE Growth tapers to zero until continuing period	NTM+6	4.1%		\$2,840.34	14%	23.2%	10.0%	
Long term Growth		NTM+7	4.1%		\$2,917.49	14%	23.6%	10.1%	
Long term EBITDA Margin	23.0%	NTM+8	4.0%		\$2,998.89	14%	24.0%	10.2%	
Long term NOPLAT Margin	20.0%				\$3,085.36	15%	24.4%	10.3%	
Long term ROIC	12.0%								
Most recent Unlevered Beta	2.03								
Long term Unlevered Beta	1.31								
<u>Valuation</u>		<u>Enterprise Value (UFCF Valuation only)</u>		<u>Total Debt</u>	<u>Other claims</u>	<u>Equity Value</u>	<u>UDCF Valuation</u>	<u>Relative Valuation</u>	<u>Weighted Price Per Share</u>
LTM	\$77.63	\$4,752.21	\$1,326.39	\$-1,032.28	\$4,458.10	\$35.55	\$41.15	\$36.95	
NTM	\$274.98	\$5,136.30	\$1,326.39	-\$1,347.14	\$5,157.05	\$40.28	\$57.81	\$44.66	
NTM+1	\$301.28	\$5,213.01	\$1,326.39	-\$1,675.48	\$5,562.10	\$43.24	\$70.29	\$50.00	
NTM+2	\$323.81	\$5,228.75	\$1,326.39	-\$2,059.04	\$5,961.40	\$46.25	\$80.35	\$54.78	
NTM+3	\$341.76	\$5,194.90	\$1,326.39	-\$2,483.39	\$6,351.90	\$49.21	\$89.00	\$59.16	
NTM+4	\$358.24	\$5,119.23	\$1,326.39	-\$2,943.38	\$6,736.22	\$52.26	\$97.05	\$63.46	
NTM+5	\$374.95	\$5,003.92	\$1,326.39	-\$3,436.61	\$7,114.13	\$54.96	\$105.00	\$67.47	
NTM+6	\$395.16	\$4,858.23	\$1,326.39	-\$3,950.78	\$7,482.61	\$57.73	\$112.98	\$71.54	
NTM+7	\$413.53	\$4,673.04	\$1,326.39	-\$4,490.88	\$7,837.53	\$60.39	\$121.19	\$75.59	
NTM+8	\$1,146.04	\$4,444.88	\$1,326.39	-\$5,058.32	\$8,176.81	\$62.19	\$129.72	\$79.07	
<u>Monte Carlo Simulation Assumptions</u>		<u>Base</u>	<u>Stdev</u>	<u>Min</u>	<u>Max</u>	<u>Distribution</u>	<u>Monte Carlo Simulation Results</u>		
Revenue Variation	0	10%	N/A	N/A	Normal	Mean est.	\$36.95	\$44.66	
Op. Costs Variation	0	10%	N/A	N/A	Normal	σ(e)	\$0.32	\$0.25	
Country Risk Premium	6%	N/A	5%	7%	Triangular	3 σ(e) adjusted price	\$35.99	\$43.91	
Long term Growth	4%	N/A	3%	15%	Triangular	Current Price	\$34.28		
							Analysts' median est.	\$38.07	