

# Canadian Solar (CSIQ)

Reports 4<sup>th</sup> Quarter and Full Year 2009 Results  
 Maintain 2010 EPS Estimate at \$1.82  
 Introducing 2011 EPS Estimate of \$2.15  
 Reiterate Buy and Maintain Price Target of \$27

**Canadian Solar reported 4Q revenues/EPS of \$287mm/\$0.35, beating our forecast of \$263mm/\$0.32 on higher shipments (155.5MW vs. expected 139MW) and higher gross margin (15.4% vs. expected 13.9%).** We had reduced our 4Q forecast following CSIQ's Feb. 19 pre-announcement of wafer equipment issues and lower gross margin. Against these reduced expectations, higher gross margin reflected better polysilicon pricing (estimated \$81/kg versus our \$90/kg forecast). ASP was an estimated \$1.88/watt, in line with forecast.

**Near-term ASP outlook appears strong on German demand-pull.** Management noted that on a Euro basis, pricing was largely flat going into Q1 2010 given the strength in Germany.

**CSIQ maintained volume guidance for 2010 at 600-700MW, but we think this is conservative given the guidance for the first half of the year.** We expect management will revisit volume guidance after clarity in Germany emerges, probably during 1Q review. We forecast shipments of 740MW for 2010.

**Wafer equipment issues appear to be under control and should be largely minimized after the June quarter.** We estimate that the equipment problems will impact 2010 gross margin by 150bps or \$0.33 in 2010 EPS, but be nonrecurring. Even so, we expect CSIQ valuation may be restrained until the company demonstrates that it can execute consistently and manage its rapid growth.

**We are maintaining our EPS estimate of \$1.82 for 2010,** as strong volume growth and lower polysilicon prices (purchased primarily via wafers) offset decline in ASP to \$1.50 by Q3.

**We are introducing our 2011 EPS estimate of \$2.15/share.** The 18% EPS growth reflects volume growth of 35% to 1GW, higher gross margin of 18.8% (from 17.8% in 2010) on greater in-house production of wafers and cells, offset partly by ASP decline to \$1.30 by Q3.

**We maintain our Buy Rating and price target of \$27/share based upon a 15x forward P/E multiple on our forecast 2010 EPS of \$1.82.** This corresponds to a 10x EV/EBITDA<sub>2010</sub> multiple and approximate 2x tangible book value.

## Company Description

Canadian Solar is a leading solar module manufacturer; it produces silicon based ingots, wafers, cells and modules. The company is incorporated in Canada, but operations and manufacturing are in China. Canadian Solar sells its products globally and has a roughly 5% and growing global market share.

EARNINGS NOTE

RATING: BUY

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George Santana, CFA  
 (858) 345-1662  
 gsantana@greenerdawn.com

Stephen Quirk  
 (858) 345-1674  
 squirk@greenerdawn.com

## Stock Data

|                                |                 |
|--------------------------------|-----------------|
| Ticker/Exchange:               | CSIQ / NasdaqGM |
| Price:                         | \$20.53         |
| Price Target:                  | \$27.00         |
| 52-week Range:                 | \$3.00 – 33.68  |
| Diluted Shares Outstand. (mm): | 43.650          |
| Market cap (\$mm):             | \$888           |
| EV (\$mm):                     | \$1,115         |
| Avg. Daily Trading Vol (\$mm): | \$47.2          |

## Revenues (US\$ million)

|       | 2009          | 2010EOld        | 2010ENew        | 2011E           |
|-------|---------------|-----------------|-----------------|-----------------|
| Q1    | \$49A         | \$278E          | \$317E          | \$232E          |
| Q2    | \$114A        | \$275E          | \$329E          | \$290E          |
| Q3    | \$213A        | \$227E          | \$263E          | \$361E          |
| Q4    | <u>\$287A</u> | <u>\$234E</u>   | <u>\$271E</u>   | <u>\$441E</u>   |
| Total | <b>\$664A</b> | <b>\$1,014E</b> | <b>\$1,179E</b> | <b>\$1,324E</b> |

## Earnings Per Share

|       | 2009           | 2010EOld       | 2010ENew       | 2011E          |
|-------|----------------|----------------|----------------|----------------|
| Q1    | (\$0.13)A      | \$0.61E        | \$0.39E        | \$0.11E        |
| Q2    | \$0.49A        | \$0.49E        | \$0.55E        | \$0.47E        |
| Q3    | \$0.69A        | \$0.25E        | \$0.32E        | \$0.59E        |
| Q4    | <u>\$0.35A</u> | <u>\$0.47E</u> | <u>\$0.56E</u> | <u>\$0.98E</u> |
| Total | <b>\$1.40A</b> | <b>\$1.82E</b> | <b>\$1.82E</b> | <b>\$2.15E</b> |
| P/E   | 14.7x          | 11.3x          | 11.3x          | 9.5x           |

## EBITDA (US\$ million)

|           | 2009         | 2010EOld      | 2010ENew      | 2011E         |
|-----------|--------------|---------------|---------------|---------------|
| Q1        | \$(8)A       | \$41E         | \$35E         | \$20E         |
| Q2        | \$16A        | \$36E         | \$40E         | \$41E         |
| Q3        | \$24A        | \$25E         | \$29E         | \$49E         |
| Q4        | <u>\$26A</u> | <u>\$36E</u>  | <u>\$41E</u>  | <u>\$72E</u>  |
| Total     | <b>\$58A</b> | <b>\$139E</b> | <b>\$145E</b> | <b>\$182E</b> |
| EV/EBITDA | 19.3x        | 8.0x          | 7.7x          | 6.1x          |

## Important Disclosures

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