



First Solar, Inc. (FSLR)

4Q 2009 Earnings Above Forecast & Consensus
2010 Company Guidance Unchanged
Maintain Neutral Rating & 12-Month Price Target of \$130
Company in Transition

COMPANY UPDATE

RATING: NEUTRAL

After market close yesterday, First Solar announced 4th quarter 2009 results of \$641mm revs/\$1.65 EPS which beat our forecast of \$604mm/\$1.42 and consensus of \$584mm/\$1.52. The beat was due to stronger volumes (311MW versus 292MW expected) and better pricing. We attribute the better pricing to the stronger Euro, which appreciated about 3% sequentially in the quarter, and strong demand in Germany. Consequently, ASP came in at an estimated \$1.75/watt for the quarter versus our expectation of \$1.69/watt. Given the recent weakness in the Euro (down ~9% sequentially thus far from Q4 average), we forecast ASP down by 11% to \$1.56 in the March 2010 quarter, with half the decline attributable to the Euro depreciation.

First Solar maintained EPS guidance of \$6.05 - \$6.85. We believe investors were somewhat disappointed that guidance was not raised given the strength in Germany. We believe company management is being cautious in light of ongoing negotiations over the reduction in the German FIT. First Solar expects a cut to be implemented mid-year, a scenario we consider likely. Germany is expected to make up approximately 50% of First Solar module sales with a heavier weighting in the first half of 2010.

First Solar is a company in transition. The systems business is projected to grow rapidly in 2010 and is reducing transparency in the core module manufacturing business. For example, module shipments and EPS are forecast to be down sequentially (and significantly) in the June quarter despite the fact that June is typically a much stronger seasonal quarter. This is occurring because First Solar is "reserving" these panels for development projects that will be sold later in 2010. Though this Systems business provides a captive market (with higher ASPs) for First Solar modules, it is also reducing transparency in the core module manufacturing business. We believe the Systems strategy is appropriate in the nascent U.S. solar power plant market, but find it complicating nonetheless. In our view, good execution is needed to allay investor concerns.

We are maintaining our earnings forecast and Neutral rating. Though our quarterly figures have changed slightly to account for the components/systems mix (lower GAAP revenues in June quarter), we maintain our EPS forecast of \$6.07 for 2010, while our EBITDA forecast has moved down slightly to \$802mm (from previous forecast of \$812mm). Our price target of \$130 reflects target EV/EBITDA₂₀₁₀ of 13 and P/E₂₀₁₀ of approximately 21.

Company Description

First Solar is the leading U.S.-based manufacturer of solar modules. The company produces and sells cadmium telluride (CdTe)-based solar modules, generally for installation in utility-scale free-field power plants and commercial applications. First Solar generates the majority of its revenues from Germany. Growing markets include U.S., China and France. The company has over 4,000 employees and manufacturing facilities in Malaysia, Germany, and Ohio.

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Stock Data

Ticker/Exchange:	FSLR/NASDAQ
Price:	\$126.29
Price Target:	\$130
52-week Range:	\$100.90-\$207.51
Shares Out (Diluted, mm):	86.004
Market cap (\$mm):	\$10,661
EV (\$mm):	\$9,721
Avg. Daily Trading Vol (\$mm):	\$306

Revenues (US\$ million)

	2008A	2009A	2010E(Old)	2010E (New)
Q1	\$197A	\$418A	\$509E	\$523E
Q2	\$267A	\$526A	\$559E	\$456E
Q3	\$349A	\$481A	\$822E	\$834E
Q4	<u>\$434A</u>	<u>\$641A</u>	<u>\$872E</u>	<u>\$924E</u>
Total	\$1,246A	\$2,066A	\$2,762E	\$2,738E

EPS

	2008A	2009A	2010E(Old)	2010E (New)
Q1	\$0.57A	\$1.99A	\$1.29E	\$1.47E
Q2	\$0.85A	\$2.11A	\$1.50E	\$1.06E
Q3	\$1.20A	\$1.79A	\$1.64E	\$1.62E
Q4	<u>\$1.61A</u>	<u>\$1.65A</u>	<u>\$1.63E</u>	<u>\$1.92E</u>
Total	\$4.24A	\$7.53A	\$6.07E	\$6.07E

P/E 16.8x 20.8x 20.8x

EBITDA (US\$ million)

	2008A	2009A	2010E(Old)	2010E (New)
Q1	\$ 67A	\$194A	\$173E	\$189E
Q2	\$102A	\$234A	\$199E	\$150E
Q3	\$147A	\$197A	\$218E	\$213E
Q4	<u>\$182A</u>	<u>\$181A</u>	<u>\$222E</u>	<u>\$249E</u>
Total	\$498A	\$807A	\$812E	\$802E

EV/EBITDA 12.0x 12.0x 12.2x

Important Disclosures

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For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.