

# First Solar, Inc. (FSLR)

2010 Guidance Better Than Expected and Expansion Plans Announced; Forecasts Revised Upward; Maintain Neutral on Valuation

## COMPANY UPDATE

**First Solar provided 2010 guidance and hosted analysts and investors in New York.** EPS guidance of \$6.05 to \$6.85 confirmed consensus estimates of \$6.52, while revenue guidance of \$2.7 to \$2.9 billion significantly exceeded both consensus and our forecast due to a much bigger ramp in the EPC business. We have revised our 2010 EPS forecast upwards from \$5.24 to \$6.07, to the low end of consensus. The primary driver of this improvement is a less severe ASP decline.

## RATING: NEUTRAL

**This better than expected guidance implies that First Solar has better pricing visibility because of the captive market created through the EPC business.** First Solar appears able to capture a price premium on modules when they are included in a total system package. We expect projects such as the recently announced Sarnia expansion with Enbridge (from 20MW now to 80MW total) support this thesis.

**The Company provided clarity on much-anticipated capacity additions with an 8-line expansion (424MW at today's line run rate) in Malaysia at a cost of \$365MM.** In addition, final location of the manufacturing facility in France (~100MW) will be announced before year-end.

**What else?** First Solar did not provide specific EPS guidance for 2009 but did provide an operating cash flow range of \$476MM to \$511MM. This was significantly better than our forecast of \$390MM, indicating that working capital management was strong through the close of 2009. We have revised our Q4'09E EPS estimate upwards from \$1.21 to \$1.42. Our total 2009 EPS forecast increases from \$7.08 to \$7.29 as a result.

**No rating change; maintain Neutral.** Though we revised our 2010 EPS forecast up by 16%, this still implies an EPS decline of 17% year over year. The June 2009 quarter still represents a peak in near-term earnings. Our price target of \$130 reflects target EV/EBITDA<sub>2010</sub> of 13 and P/E<sub>2010</sub> 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 (70%+) 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:	\$135.67
Price Target:	\$130
52-week Range:	\$100.90-\$207.51
Shares Out (Diluted, mm):	85.892
Market cap (\$mm):	\$11,653
EV (\$mm):	\$11,015
Average Daily Trading Volume (\$mm):	\$481

### Revenues (US\$ million)

	<u>2008</u>	<u>2009E(Old)</u>	<u>2009E(New)</u>	<u>2010(Old)</u>	<u>2010E(New)</u>
Q1	\$197A	\$418A	\$418A	\$508E	\$509E
Q2	\$267A	\$526A	\$526A	\$547E	\$559E
Q3	\$349A	\$481A	\$481A	\$600E	\$822E
Q4	<u>\$434A</u>	<u>\$580E</u>	<u>\$604E</u>	<u>\$607E</u>	<u>\$872E</u>
Total	\$1,246A	\$2,004E	\$2,029E	\$2,261E	\$2,762E

### EPS (GAAP, diluted)

	<u>2008</u>	<u>2009E(Old)</u>	<u>2009E(New)</u>	<u>2010E(Old)</u>	<u>2010E(New)</u>
Q1	\$0.57A	\$1.99A	\$1.99A	\$1.25E	\$1.29E
Q2	\$0.85A	\$2.11A	\$2.11A	\$1.27E	\$1.50E
Q3	\$1.20A	\$1.79A	\$1.79A	\$1.38E	\$1.64E
Q4	<u>\$1.61A</u>	<u>\$1.21E</u>	<u>\$1.42E</u>	<u>\$1.34E</u>	<u>\$1.63E</u>
Total	\$4.24A	\$7.08E	\$7.29E	\$5.24E	\$6.07E

### EBITDA (US\$ million)

	<u>2008</u>	<u>2009E(Old)</u>	<u>2009E(New)</u>	<u>2010(Old)</u>	<u>2010E(New)</u>
Q1	\$ 67A	\$194A	\$194A	\$161E	\$173E
Q2	\$102A	\$234A	\$234A	\$167E	\$199E
Q3	\$147A	\$197A	\$197A	\$182E	\$218E
Q4	<u>\$182A</u>	<u>\$156E</u>	<u>\$176E</u>	<u>\$181E</u>	<u>\$222E</u>
Total	\$498A	\$782E	\$802E	\$691E	\$812E

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