



# First Solar, Inc. (FSLR)

Technology, Scale & Cost Leadership

Initiating Coverage at Neutral

**Solar business remains driven by government incentives, but demand is rebounding from a difficult first-half 2009.** Solar demand is up sharply in Germany (near half of global demand in 2009), as lower module prices (down as much as 50% in 4 quarters) are yielding very high project IRRs.

**By our forecast, near-term earnings for First Solar peaked in the June 2009 quarter.** ASPs are expected to continue declining (we forecast FSLR ASP down 24% in 2009 and another 22% in 2010) due to industry overcapacity, sharply lower polysilicon pricing (driving lower prices on c-Si modules), aggressive Chinese competition, and cuts in the German feed-in-tariff (normal degression plus expected additional to normalize IRRs). *We believe this is well understood by the Street.*

**Our 2010 earnings forecast of \$5.24 is 20% below consensus of \$6.52,** limiting our potential enthusiasm for the stock. Our forecast assumes further gains in conversion efficiency (up 0.2% to 11.2% by end-2010) and manufacturing efficiency (to 58.5MW throughput per line), offset by a steady decline in ASP to \$1.40 by year-end 2010.

**We would be more constructive on the stock on signs that pricing pressures are abating.** With company near full capacity, earnings forecast exhibits high variability to pricing. Some Chinese c-Si module manufacturers are calling for flattish pricing in the first quarter of 2010. However, these companies continue to add significant capacity, suggesting an ongoing battle for market share. In addition, potential extraordinary cuts in the German FIT add to uncertainty. By our forecast, each penny decline in ASP affects FSLR 2010 EPS by \$0.14.

**Given continued valuation premium and expected earnings decline in 2010, the stock seems fairly valued.** Price target of \$130 reflects target EV/EBITDA<sub>2010</sub> of 16 and P/E<sub>2010</sub> of 25.

**Next data point is December 16,** when First Solar will provide guidance for 2010. We await any indication of stabilizing prices and/or guidance for more rapid conversion efficiency gains or cost reductions.

## 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.

STOCK INITIATION

RATING: NEUTRAL

Greener Dawn Research

United States  
Renewable Energy & Clean Technology: Solar

December 8, 2009

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## Stock Data

Ticker/Exchange:	FSLR/NASDAQ
Price:	\$135.18
Price Target:	\$130
52-week Range:	\$100.90-\$207.51
Shares Out (Diluted, mm):	85.892
Market cap (\$mm):	\$11,611
EV (\$mm):	\$10,973
Avg. Daily Trading Vol (\$mm):	\$481

## Revenues (US\$ million)

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Q1	\$197A	\$418A	\$508E
Q2	\$267A	\$526A	\$547E
Q3	\$349A	\$481A	\$600E
Q4	<u>\$434A</u>	<u>\$580E</u>	<u>\$607E</u>
Total	<b>\$1,246A</b>	<b>\$2,004E</b>	<b>\$2,261E</b>

## EPS

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Q1	\$0.57A	\$1.99A	\$1.25E
Q2	\$0.85A	\$2.11A	\$1.27E
Q3	\$1.20A	\$1.79A	\$1.38E
Q4	<u>\$1.61A</u>	<u>\$1.21E</u>	<u>\$1.34E</u>
Total	<b>\$4.24A</b>	<b>\$7.08E</b>	<b>\$5.24E</b>

## EBITDA

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Q1	\$67A	\$194A	\$161E
Q2	\$102A	\$234A	\$167E
Q3	\$147A	\$197A	\$182E
Q4	<u>\$182A</u>	<u>\$156E</u>	<u>\$181E</u>
Total	<b>\$498A</b>	<b>\$782E</b>	<b>\$691E</b>

## Important Disclosures

Greener Dawn Investment Group seeks to do business with companies covered by Greener Dawn Research. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

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