



Trina Solar (TSL)

ADS ratio adjustment similar to 2-1 Share Split;
Adjust EPS and Price Target to \$45;
Update on German Incentives

ADS Ratio Adjustment

Effective this morning, Trina Solar adjusts its ADS ratio from 100:1 to 50:1. The effect is similar to splitting the stock. Accordingly, we are revising our EPS calculations and price target. As a result of the change, our earnings per ADS forecast changes from \$2.71 to \$1.35 for 2009 and from \$4.48 to \$2.24 for 2010. Our 12-month price target goes from \$90 to \$45.

German Feed in Tariff reductions: Update

Last week, Reuters posted an unconfirmed story about a potential 16-17% cut to the German Feed-in-Tariff (FiT), due to take effect on April 1.

This morning, Reuters is reporting that German Environment Minister Norbert Roettgen proposed a 15 percent cut in the FiT for new roof-mounted solar power, a slightly smaller reduction than rumored last week. However, as rumored, this cut would take effect from April.

Roettgen added that the tariffs for solar energy generated from open field and farmland sites should also be cut from July, by 15 percent and 25 percent, respectively.

Most industry observers (including us) believed that a 10-15% cut would be applied across the board, effective July 1st. According to our sources in Germany, the solar market has been red-hot since the fourth quarter of 2009, racing in anticipation of the expected July 1 cut in the FiT. (We have heard reports that installers are even working at night to install systems!) Clearly, the plunge in module prices over the past year has yielded strong project returns. Accordingly, the German market can take a FiT reduction and continue to show good (rather than overheated) demand. It's our impression that all industry participants would like to avoid a scenario similar to what happened in Spain.

The newly proposed FiT reductions don't cause us to change our estimates at the present time, although we will revisit on release of further details. Trina is arguably one of the most insulated solar manufactures, given its relatively small exposure in Germany – 30%, versus 70% for First Solar (FSLR; rated Neutral) and 50% of the entire solar market.

We rate Trina shares Strong Buy with a \$45 price target (80% above the current price), based upon a 20x multiple of our 2010E EPS of \$2.24.

Company Description

Trina Solar is a leading Chinese solar module manufacturer; it produces silicon based ingots, wafers, cells and modules. The company sells its products globally.

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Stock Data

Ticker/Exchange:	TSL/NYSE (ADS)
Price:	\$24.98
Price Target:	\$45
52-week Range:	\$2.88 – 31.19
ADS ratio:	50 shares = 1 ADS
ADS Equiv. Out (Diluted, mm):	69.24
Market cap (\$mm):	\$1,523
EV (\$mm):	\$1,688
Avg. Daily Trading Vol (\$mm):	\$78.5

Revenues (US\$ million)

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Q1	\$121A	\$132A	\$257E
Q2	\$204A	\$150A	\$287E
Q3	\$291A	\$250A	\$324E
Q4	<u>\$216A</u>	<u>\$282E</u>	<u>\$342E</u>
Total	\$832A	\$814E	\$1,210E

Earnings Per ADS

	<u>2008</u>	<u>2009</u>	<u>2010E</u>
Q1	\$0.26A	(\$0.21)A	\$0.53E
Q2	\$0.34A	\$0.35A	\$0.61E
Q3	\$0.58A	\$0.65A	\$0.56E
Q4	<u>\$0.01A</u>	<u>\$0.56E</u>	<u>\$0.54E</u>
Total	\$1.19A	\$1.35E	\$2.24E

EBITDA

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Q1	\$24A	\$14A	\$57E
Q2	\$36A	\$26A	\$65E
Q3	\$52A	\$53A	\$63E
Q4	<u>\$28A</u>	<u>\$57E</u>	<u>\$62E</u>
Total	\$120A	\$151E	\$246E

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COMPANY UPDATE

RATING: STRONG BUY

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Risks & Considerations

EPS sensitivity/volatility

Trina's full capacity production creates tremendous earnings leverage and variability. For every \$0.01 change in ASP, we estimate that earnings per ADS for 2010 change by approximately \$0.10, assuming no other operating changes.

Industry capacity expansion

Concurrent with hints of reduced pricing pressure, many of the Chinese manufacturers reaffirmed their plans for significant capacity expansions. The expansions are sizeable enough to give us pause. For example, between end-September 2009 and year-end 2010, Trina and Canadian Solar (CSIQ; not rated) have announced module capacity expansions of 100% and 144%, respectively.

Low R&D spend

One source of concern for Trina is its relative lack of R&D spending both in absolute and relative terms. In 2008, Trina spent \$3MM in R&D and we estimate this will increase to just \$5MM in 2009 and \$8MM in 2010. By contrast, Yingli (YGE; not rated) and Suntech (STP; not rated) will each spend about \$25MM on R&D in 2009, while First Solar and SunPower (SPWR; not rated) spend \$80MM and \$32MM, respectively.

Renminbi appreciation

Prior to the start of the economic crisis in mid-2008, the Chinese government had steadily been allowing the Renminbi to appreciate against the dollar from 8.3 RMB/USD in June 2005 to 6.8 RMB/USD to July of 2008, an increase of 18%. For the past year and half, the exchange rate has been effectively fixed, but as global growth resumes, pressure to revalue the exchange rate will most likely grow. This appreciation will pressure the cost structure of export-oriented Chinese based manufacturers like Trina.

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- Strong Buy:** We expect the stock to provide a total return of 30% or more within a 12-month period.
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