

SunPower Increases Quarterly Revenue, First Solar Hits High Losses

Written by Robert Dydo
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SunPower's first quarter revenue of \$494M was a 9% increase over the same period last year, but it was a drop of 12% sequentially in comparison to Q4. While the gross margin saw a drop of 53% compared to the same period last year, the result was in line with Q4, achieving a positive 9%. The net income was a negative \$74M or a loss of \$0.67 per share. Cash and cash equivalents went down 54% to \$302M quarter to quarter, while the company managed to reduce its debt by 34% from \$978M to \$639M. In absolute dollars this represents a transfer of items on the balance sheet worth of \$335M, including the redemption of \$199M of convertible debt.

The company's 21% efficiency modules are the highest rated commercially, including modules from other manufacturers. However, even with the adjustment for this efficiency, the cost per watt continues to be at the high end of the equation and the objective of reaching \$0.86 per watt by the end of 2012 lags behind the majority of targets given by leading Chinese solar companies. In order to attain its own reductions, SunPower eliminated 125MW of production lines located in the Philippines, the part of the facility run under the joint venture with AUO of Taiwan. This decision is expected to help SunPower to recognize savings of \$0.02 per watt from the current levels. Based on the conference call, Sunpower also disclosed a one-time \$19M equity gain, recorded over Q4 and Q1, from the sale of stake in South Korean Woongjin Energy. In September 2011, Woongjin reported a cancellation of the wafer contract worth \$102M, which we speculate was associated with SunPower concluding this relationship.

Regardless of production cost per watt, the company had stated that they can comfortably compete with the Chinese on BOS (balance of system) costs and confirmed a 5GW pipeline of commercial projects available in North America, which will be capitalized over a period of the next three years. 1GW of those projects are already under PPA (power purchase agreements). In Q1, the company shipped 27MW of modules to Toshiba, with the objective being to reach the Japanese market. Beyond the US, Sunpower sees emerging markets in the Asia Pacific region, Middle East and Africa as future areas of growth. SunPower guided the second quarter with additional losses but plans to break even or better on non-GAAP revenue of \$2.6 to \$3B for the full year.

During the conference call Thomas H. Werner, the CEO, mentioned the quality of SunPower's modules based on 6 years' history of sales. On average 27 modules per 1 million sold were returned due to quality issues. This appears to be a direct poke at First Solar's troubles with costs over normal warranty expenses, something the CEO explored to show the superiority of his own company's components to the audience.

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First Solar's revenue of \$497M was a drop of 12% year over year and a 24% drop sequentially. The company has lost over \$449M, including \$401M in charges due to restructuring and closure costs involving shutting down German operations, idling Malaysian production lines as well as \$130M expenses related to asset impairments. The overall loss became \$5.20 per share, a surprise to many, particularly after a loss of \$4.78 in Q4 left a bitter taste for the enthusiasts of this one-time king of gross margins. First Solar confirmed that conditions of no barriers for entry, with uncontrolled manufacturing growth, are conditions which they will avoid in the future. Instead, Mike Ahearn, Chairman of the Board, presented a 5-year plan to move the business into a conquest of installation capacity mostly in emerging markets, with aggressive efficiencies for the thin-film and even more aggressive BOS pricing. The company sees itself as having a clear advantage over the competition with 2.4GW of constructed power plants and 1.1GW of construction, which to date received funding exceeding \$1.5B. Those objectives expect conversion efficiency and systems' cost to cross in 2014 when pricing per watt will drop below \$1.40, while efficiency rises. In 2016 First Solar sees the same costs to be below \$1.20 with efficiencies of around 15%. All of it, however, is running on slim margins of 15 to 20%.

Going back to 2012, the Q1 cost per watt of \$0.73 is a slight improvement over the original guidance for Q1, but the number excludes depreciation figures resulting from asset impairments and shutdowns. If there were not enough issues with quality, the company expensed another \$43M this quarter, in excess of normal warranty expenses associated with the still so-called excursion - a dark shadow on everything First Solar does and will do in the future. The company's debt increased by \$200M in comparison to Q4 and stood at \$864M at the end of the quarter, while cash remained essentially unchanged. First Solar increased its 2012 guidance for earnings per share and plans to clear 2012 with a range of earnings from \$4.00 to \$4.50 per share on the revenue of \$3.0B to \$3.8B

First Solar has also changed the company's leadership by hiring a new CEO, Mr. Jim Hughes, who will replace interim CEO and Chairman of the Board, Mike Ahearn.