



Solar Stock Faceoff for The Solar Eclipse

On Monday, grid operators throughout the country will scramble to deal with the impact of diminished sunlight during the first total solar eclipse in the continental United States since 1979. There shouldn't be any power outages, but engineers for utilities such as Duke Energy (DUK) have been [running war games](#) to prepare, which reflects the growing importance of solar to the U.S. energy system.

At the forefront of this growth in solar energy are the two largest solar companies in the U.S. by market cap: First Solar (FSLR: \$49/share) and SunPower (SPWR: \$10/share). In this article, we will judge FSLR and SPWR on five key categories:

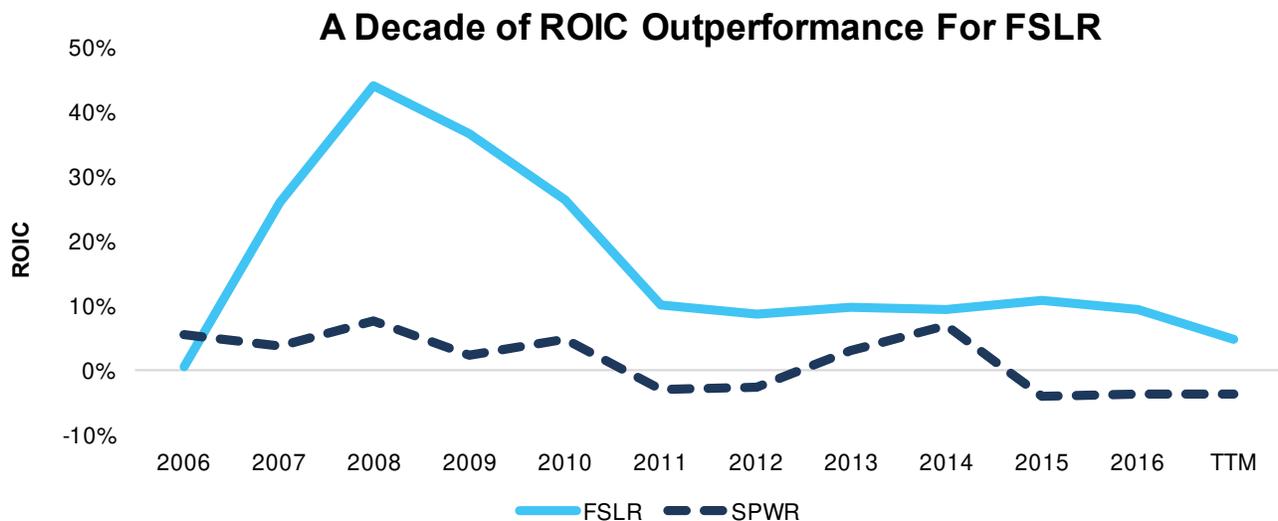
- Profitability
- Corporate Governance
- Free Cash Flow Yield
- Growth Opportunities
- Valuation

With investors' eyes turned towards the sun today, which of these solar stocks is the best bet to make your portfolio shine?

Profitability

The most important metric we look at for any company is return on invested capital ([ROIC](#)). ROIC is the best measure of corporate performance and has the most [direct link to valuation](#). As Figure 1 shows, First Solar has consistently earned a superior ROIC to SunPower over the past decade.

Figure 1: FSLR and SPWR ROIC Since 2006



Sources: New Constructs, LLC and company filings.

There's no competition in this category. First Solar has the much better track record of profitability.

Corporate Governance

Superior profitability in the past means nothing if those profits cannot be maintained in the future. Many highly profitable companies have gone on to destroy shareholder value through overpriced acquisitions or wasteful spending. Compensation plans that reward executives for maximizing ROIC are the best way to ensure a focus on shareholder value.

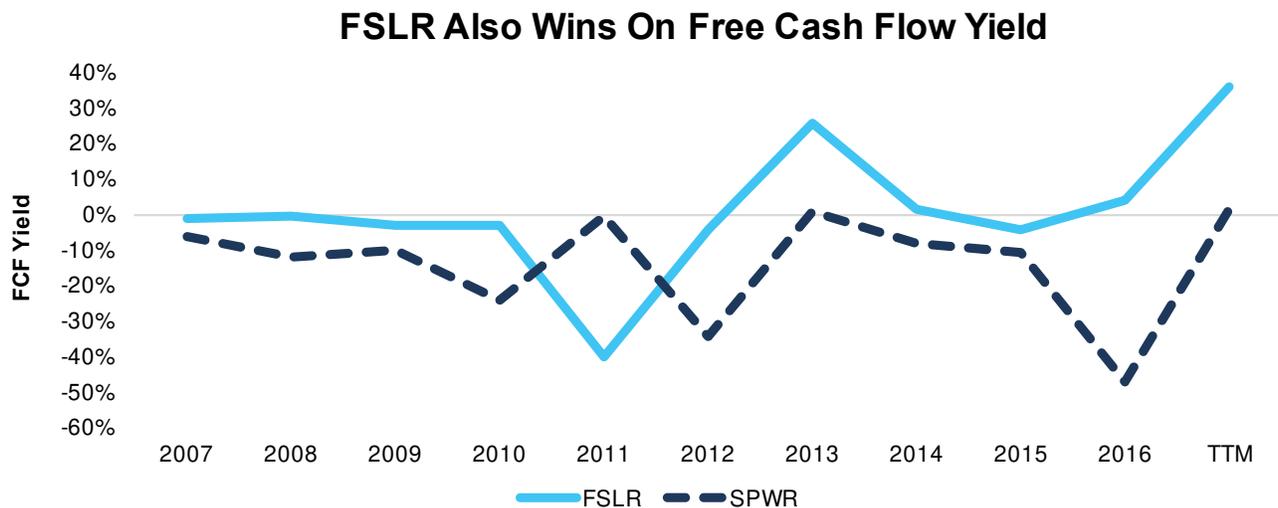
First Solar ties a significant portion of executive's long-term stock grants to ROIC. We have some concerns over the way the company calculates ROIC—especially with its decision to exclude certain stock-based compensation—but it's still encouraging that the company rewards executives for superior capital allocation.

On the other hand, SunPower's primary metric for calculating executive bonuses is "Adjusted EBITDA," a metric also famously used by [Valeant Pharmaceuticals](#) (VRX). There's no comparison; First Solar's executive compensation plan is much more shareholder friendly.

Free Cash Flow Yield

Cash is king. The value of any business ultimately comes down to its ability to generate [free cash flow](#) for investors. Figure 2 compares First Solar and SunPower on the basis of free cash flow yield over the past decade.

Figure 2: FSLR and SPWR Free Cash Flow Yield Since 2007



Sources: New Constructs, LLC and company filings.

It's the same story as Figure 1. Over the past decade, First Solar has earned a superior free cash flow yield in every year but one. This competition is starting to look awfully one-sided.

Growth Opportunities

Even though they're both in the solar industry, First Solar and SunPower have very different business models. SunPower focuses on high-efficiency panels that are ideal for rooftop solar installations, while First Solar's thin-film panels hold up better in harsh environments and appeal to large-scale utilities.

Growth in the rooftop solar industry [slowed significantly in 2016](#), putting a damper on SunPower's outlook. First Solar, on the other hand, has some significant growth opportunities as [developing countries such as India](#) aim to supplement their power grids with solar energy.

Both companies face significant near-term pressure as a glut of new supply has caused solar panel prices to plummet, but First Solar has the better opportunity to offset that decline.

Valuation

These companies are difficult to compare on most valuation metrics due to the fact that First Solar earns a positive after-tax operating profit ([NOPAT](#)) while SunPower has lost money for the past two years. However, there are still a couple metrics we can use to compare the two.



First Solar has an enterprise value/invested capital (a cleaner version of price/book) of 0.61, while SunPower's EV/IC is 0.80.

For enterprise value/revenue, it's 1.31 for First Solar against 1.76 for SunPower.

It's a clean sweep. First Solar beats SunPower in all five categories and is the better stock to buy for investors seeking exposure to the solar industry.

This article originally published on [August 21, 2017](#).

Disclosure: David Trainer and Sam McBride receive no compensation to write about any specific stock, style, or theme.

Follow us on [Twitter](#), [Facebook](#), [LinkedIn](#), and [StockTwits](#) for real-time alerts on all our research.

New Constructs® - Research to Fulfill the Fiduciary Duty of Care

Ratings & screeners on 3000 stocks, 450 ETFs and 7000 mutual funds help you make prudent investment decisions.

New Constructs leverages the latest in machine learning to analyze structured and unstructured financial data with unrivaled speed and accuracy. The firm's forensic accounting experts work alongside engineers to develop proprietary NLP libraries and financial models. Our investment ratings are based on the best fundamental data in the business for stocks, ETFs and mutual funds. Clients include many of the top hedge funds, mutual funds and wealth management firms. David Trainer, the firm's CEO, is regularly featured in the media as a thought leader on the fiduciary duty of care, earnings quality, valuation and investment strategy.

To fulfill the Duty of Care, research should be:

1. **Comprehensive** - All relevant publicly-available (e.g. 10-Ks and 10-Qs) information has been diligently reviewed, including footnotes and the management discussion & analysis (MD&A).
2. **Un-conflicted** - Clients deserve unbiased research.
3. **Transparent** - Advisors should be able to show how the analysis was performed and the data behind it.
4. **Relevant** - Empirical evidence must provide [tangible, quantifiable correlation](#) to stock, ETF or mutual fund performance.

Value Investing 2.0: Diligence Matters: Technology is Key to Value Investing With Scale

Accounting data is only the beginning of fundamental research. It must be translated into economic earnings to truly understand profitability and valuation. This translation requires deep analysis of footnotes and the MD&A, a process that our [robo-analyst technology](#) empowers us to perform for thousands of stocks, ETFs and mutual funds.

DISCLOSURES

New Constructs®, LLC (together with any subsidiaries and/or affiliates, "New Constructs") is an independent organization with no management ties to the companies it covers. None of the members of New Constructs' management team or the management team of any New Constructs' affiliate holds a seat on the Board of Directors of any of the companies New Constructs covers. New Constructs does not perform any investment or merchant banking functions and does not operate a trading desk.

New Constructs' Stock Ownership Policy prevents any of its employees or managers from engaging in Insider Trading and restricts any trading whereby an employee may exploit inside information regarding our stock research. In addition, employees and managers of the company are bound by a code of ethics that restricts them from purchasing or selling a security that they know or should have known was under consideration for inclusion in a New Constructs report nor may they purchase or sell a security for the first 15 days after New Constructs issues a report on that security.

DISCLAIMERS

The information and opinions presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or solicitation of an offer to buy or sell securities or other financial instruments. New Constructs has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor and nothing in this report constitutes investment, legal, accounting or tax advice. This report includes general information that does not take into account your individual circumstance, financial situation or needs, nor does it represent a personal recommendation to you. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about any such investments or investment services.

Information and opinions presented in this report have been obtained or derived from sources believed by New Constructs to be reliable, but New Constructs makes no representation as to their accuracy, authority, usefulness, reliability, timeliness or completeness. New Constructs accepts no liability for loss arising from the use of the information presented in this report, and New Constructs makes no warranty as to results that may be obtained from the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information and opinions contained in this report reflect a judgment at its original date of publication by New Constructs and are subject to change without notice. New Constructs may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and New Constructs is under no obligation to insure that such other reports are brought to the attention of any recipient of this report.

New Constructs' reports are intended for distribution to its professional and institutional investor customers. Recipients who are not professionals or institutional investor customers of New Constructs should seek the advice of their independent financial advisor prior to making any investment decision or for any necessary explanation of its contents.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would be subject New Constructs to any registration or licensing requirement within such jurisdiction.

This report may provide the addresses of websites. Except to the extent to which the report refers to New Constructs own website material, New Constructs has not reviewed the linked site and takes no responsibility for the content therein. Such address or hyperlink (including addresses or hyperlinks to New Constructs own website material) is provided solely for your convenience and the information and content of the linked site do not in any way form part of this report. Accessing such websites or following such hyperlink through this report shall be at your own risk.

All material in this report is the property of, and under copyright, of New Constructs. None of the contents, nor any copy of it, may be altered in any way, copied, or distributed or transmitted to any other party without the prior express written consent of New Constructs. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of New Constructs.

Copyright New Constructs, LLC 2003 through the present date. All rights reserved.