First Solar, Inc.(FSLR)

Takeaways from our Fireside Chat with First Solar CFO, Alex Bradley

Rating	**Buy**
Previous Rating	No Change
Price (12/8)	**$145.38**
Price Target	**$188.00**
Previous Price Target	No Change

We held a fireside chat with Alex Bradley, First Solar CFO, on 12/8. We come away with more confidence on First Solar's contracted backlog which has limited downside to change in module prices, elevated US module pricing beyond 2026 due to import tariff and non-tariff reasons, limited risk to the IRA under a Republican clean sweep in 2024 elections, and potential volume upside due to faster production ramp. We reiterate our Outperform rating. Please see our recent 11/20 FSLR Initiation for additional thoughts.

Limited pricing downside to 82 GW contracted backlog: Inbound questions on First Solar last week focused on the impact of declining solar module prices on existing backlog and future bookings. Regarding existing backlog, Mr. Bradley highlighted that First Solar is sold out through 2026 and has an 82 GW contracted backlog. He noted that 86% of backlog has firm take or pay contracts, while the balance (14%) come with a 20% contract termination fee, implying limited downside to pricing, and hence earnings power, through 2026. In line with comments from their 3Q earnings, Mr. Bradley highlighted 1-2c of upside to their contracted ASP related to technology improvements, e.g., bifacial modules.

Pricing beyond 2026 likely to be elevated to incorporate import tariffs, non-tariff risk, and domestic supply premium: Regarding pricing beyond 2026, he said First Solar price discovery is based on pricing that works for both parties and includes c-Si module cost forecasts, domestic content surety, FSLR's lower degradation rates and better long term yield, Section 301 tariff on China imports (25%), Anti-dumping and Countervailing duty on China and SE Asia imports (AD/CVD - ~50%), and Section 201 tariff (if non-bifacial). He didn't give a number on our call but did point to 30c/W price in new bookings in 3Q23 implies a premium over international prices. We estimate FSLR's contracts had a 67% premium over European solar module prices of $0.16-0.20/W per BNEF. Expect more details on new bookings ASPs on 4Q23E call in February 2024. We estimate US solar module prices to decline to ~$0.265/W in 2027E and ~$0.255/W by 2030E - which is in line with the cost of importing a solar module from China (12-15c/W China module, +25% Section 301, +50% AD/CVD, +freight, +domestic content premium).

Limited details on Chinese poly imports into the US, expect consolidation in oversupplied c-Si peers: Mr. Bradley mentioned that FSLR has not been able to verify if modules using Chinese, non-Xinjiang polysilicon, have been imported successfully as indicated by some sell-side reports in the last few weeks. He did expect potential pricing pressure in the US if such imports are freely allowed, though FSLR's take or pay contracts keep them immune from such competition. Longer-term, he expects Chinese solar module manufacturers to consolidate, reducing the oversupply we see today. Mr. Bradley also noted that much of the Chinese capacity is older technology and not globally competitive vs new technology.

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Political risk related to elections is likely limited in the US: Mr. Bradley noted a lot of investor concern related to the upcoming US elections, and the possibility that a Republican administration could repeal the IRA. To do so, he noted, Republicans would have to sweep the Presidency and both houses of Congress with a supermajority (60+ seats in Senate seems less likely per polls). Absent a supermajority, they would likely need to use the budget reconciliation process to amend parts of the IRA which might be difficult to negotiate with Democrats. He also noted that renewable manufacturing announcements since the IRA have been heavily weighted to Republican states, driving nearshoring investments and job growth that could provide incentives for Republicans to not change the IRA.

No impact to 2024 shipments due to any customer project pushouts: First Solar has fully allocated their expected production capacity for 2024E (15.3-16.3 GW). Mr. Bradley pointed out that they are not seeing unusual project delays and that developers/EPC can get debt/tax equity/interconnection. Beyond 2024, management generally oversells >100% of planned production capacity, providing buffer if customers push out few projects, and upside from a faster production ramp. Mr. Bradley noted was that many of the projects theoretically at risk likely benefit from other unplanned tailwinds, such as higher ITCs than originally planned (pre-IRA), energy community bonus, and domestic content bonus.

Basel III is a risk, but likely mitigated by transferability: Basel III regulations increase capital requirements for banks that buy tax credits in renewable projects. Mr. Bradley believes Basel III poses a serious risk to traditional tax equity, as only 3 large banks make up most of them. A decline in potential partners would be especially harmful, given tax equity demand is expected to increase significantly due to new tax credit adders established in the IRA and new tax credits for technologies such as green hydrogen generation and carbon capture, utilization, and storage (CCUS). New transferability rules would allow projects to monetize tax credits without using traditional tax equity, but likely at a discount. *We are hosting an Expert Event Series interview on 12/12 with Billy Lee and Andy Moon, Co-founders of Reunion, a brokerage that connects parties looking to buy and sell tax credit transfers. Contact your Mizuho sales rep for registration details.*

Capacity plans could grow further in the US and India, but Europe unlikely today: FSLR noted their current manufacturing ramp to 25 GW of worldwide capacity is not their end-goal. In the US and India, he noted incentives for adding capacity could support further expansion, but in Europe the trade and manufacturing policies do not support expansion. When planning new capacity, FSLR evaluates along three criteria; timing, product, and supply chain. In supply chain, glass supply would likely be constrained unless they partner with suppliers to accelerate additional capacity, noting glass factories take 24-36 months to ramp. FSLR also noted additional expansion could stress their financial capital as they currently have a ~$3.75b capex profile 2024-26E while most of their cash sits offshore.

Stock buyback low on priorities of expected cash use: As a forecasted generator of significant cash flow starting in 2025E, FSLR expects to invest in its planned module manufacturing expansion. In line with their Analyst Day comments, they will use their cash on the priorities (in order) of working capital, capex, R&D, strategic M&A, and last, returning capital to shareholders. Working capital has trended down as FSLR has exited the systems business, but investment and maintenance capex is higher due to expansion. Strategic M&A in R&D is also a possibility, with adjacent technologies (i.e., perovskites, tandem junction), but unlikely to expand beyond solar module manufacturing into Trackers/EBOS due to limited technology moat in those industries.

Other: On domestic content requirements for tax credit adders, Mr. Bradley noted that Series 7 products is better positioned and the company will give aggregated cost information to customers where needed to calculate domestic content portion. On bookings growth he mentioned that bookings growth should slow down, vs prior run rate, as very few customers have longer term visibility. On India cost competitiveness, he expects FSLR modules to be competitive vs imports that pay a 40% import duty and since FSLR would be the very few manufacturers with a presence in India before the country's approved list of module manufacturers (ALMM) goes into effect in April 2024.

Additional notes:

- 11/20 - FSLR Attractive Pricing Power; Initiating at BUY and PT $188
- 11/20 - Toward Greener Pastures; Initiating Coverage on Clean Energy & Renewables
- 11/30 - Investor Feedback Following our Clean Energy & Renewable Initiations

Price Target Calculation and Key Risks

Valuation: Our $188 PT is based on sum of the parts which includes average of EBITDA and EPS multiples ($90) and DCF of tax credits ($98). We value the core manufacturing business (excluding manufacturing tax credits) using averages of 8x EBITDA and 9x P/E on our 2025 estimates (avg. $90), the multiples in line with solar module peers. In addition, we value manufacturing tax credits at $98 based on DCF of IRA manufacturing tax credits available for announced production capacities through 2032, assuming no tax credit extension, no new capacity expansion in the US and discounted at 10% cost of equity.

Risks: (i) Operational execution as they ramp 9 GW in the next three years in India, Alabama, Louisiana, and Ohio. 36% of their 2026 capacity is underdevelopment (ii) extended project delays due to labor or interconnection, (iii) change in US renewable policy, (iv) Solar manufacturing oversupply in the US

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Investment Risks and Valuation Methods can be located in the following section of this research report - Price Target Calculation and Key Risks.

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(As of December 8)	% of coverage	IB service past 12 mo
Buy (Buy)	60.36%	57.20%
Hold (Neutral)	37.19%	52.69%
Sell (Underperform)	2.45%	18.18%

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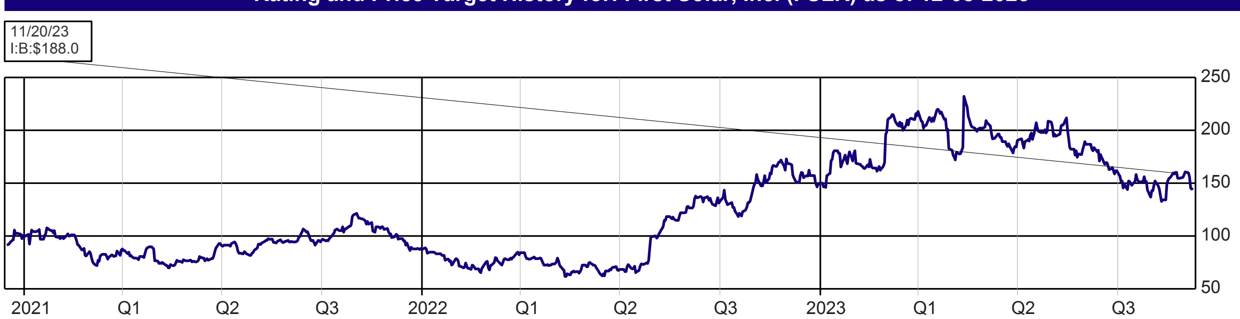
Rating and Price Target History for: First Solar, Inc. (FSLR) as of 12-08-2023



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