

SunPower Corp

Explaining the Guidance Cut

So what exactly happened? 2017 guidance comes in way below Analyst Day

Mgmt launched preliminary 2017 EBITDA guidance of \$300-400 Mn, substantially below the target of doubling EBITDA by 2019 released at the Analyst Day last fall. The guide down and implicit reduction in long-dated utility-scale margins is the sharpest yet in the solar sector and reflects our wider concerns. We see the business following after-market moves down in shares as effectively ~no longer priced into the SOP valuation

So what keeps us here? It's really a resi and commercial focus now

With margins from the utility-scale business having narrowed substantially, the focus appears to be on maintaining and expanding resi and commercial margins. We believe the shift towards cash sales and loans is critical to SPWR gaining market share. In fact, the latest technology focus has been on improving commercial costs to improve margins on this line of business which ideally is a niche for SPWR to capitalize on. This is effectively a return to the core of SPWR's operations.

But is it all that bad out there? Benign rates and good print on Henrietta

While SPWR's comments confirm greater competition amidst a slowing of utility-scale build opportunities given the ITC extension (as projects are shifted out towards 2019), we emphasize the benign credit and low interest rate environment and prices such as that paid on Henrietta suggest margins could yet be better than the negligible levels guided by mgmt. We think '17 might prove a false start off which to price '18 & '19.

Valuation: Reducing price target to \$13 from \$22 as drop estimates

Our revised price target reflects a lower EBITDA estimate of \$473 Mn (from \$605 Mn) for 2018, our valuation year. We emphasize the reduction is almost entirely driven by lower margins on utility-scale projects, with volumes and margins maintained on the adjacent resi and commercial efforts. While mgmt's commentary on 2017 would imply margins at ~5-year lows (effectively low or zero-margin business has been under-written), the wider question is to what extent others (FSLR) will be negatively impacted too. Net-net, results continue to prove worse than expected across the solar off a low base. We think the sharp sell-off in SPWR is due to investor expectations that it would prove the most resilient of peers (who are still more directly exposed) to compressing margins in the key competitive utility-scale and module sale markets.

Equities

Americas
Semiconductors

12-month rating **Buy**

12m price target **US\$13.00**
Prior: **US\$22.00**

Price **US\$10.58**

RIC: SPWR.O BBG: SPWR US

Trading data and key metrics

52-wk range	US\$30.77-10.58
Market cap.	US\$1.77bn
Shares o/s	167m (COM)
Free float	34%
Avg. daily volume ('000)	2,097
Avg. daily value (m)	US\$32.7
Common s/h equity (12/16E)	US\$1.28bn
P/BV (12/16E)	1.2x
Net debt / EBITDA (12/16E)	2.8x

EPS (UBS, diluted) (US\$)

	12/16E			
	From	To	% ch	Cons.
Q1	(0.30)	(0.30)	NM	(0.30)
Q2E	(0.09)	(0.12)	NM	(0.24)
Q3E	0.47	0.36	-24	0.81
Q4E	1.45	0.34	-77	1.10
12/16E	1.55	0.28	-82	1.36
12/17E	1.66	0.63	-62	1.80
12/18E	2.19	1.36	-38	2.06

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Highlights (US\$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	2,602	2,619	2,613	2,935	3,756	4,165	4,563	5,219
EBIT (UBS)	289	267	423	121	179	307	412	487
Net earnings (UBS)	292	251	357	40	94	215	312	376
EPS (UBS, diluted) (US\$)	2.10	1.54	2.65	0.28	0.63	1.36	1.84	2.07
DPS (US\$)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net (debt) / cash	(306)	(234)	(656)	(821)	(853)	(88)	211	543
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	11.1	10.2	16.2	4.1	4.8	7.4	9.0	9.3
ROIC (EBIT) %	26.4	20.4	25.1	6.5	10.2	23.8	52.4	79.1
EV/EBITDA (core) x	6.5	13.0	8.3	6.1	4.9	3.7	3.1	2.7
P/E (UBS, diluted) x	9.7	21.3	10.5	37.3	16.8	7.8	5.8	5.1
Equity FCF (UBS) yield %	5.7	(1.0)	(19.9)	(12.1)	40.5	17.3	18.3	18.3
Net dividend yield %	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. UBS adjusted EPS is stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement. Valuations: based on an average share price that year, (E): based on a share price of US\$10.58 on 09 Aug 2016 21:39 EDT

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UBS Research THESIS MAP a guide to our thinking and what's where in this report**PIVOTAL QUESTIONS****Q: Why are we keeping the Buy rating?**

We see shares as trading near ex-Utility scale value, focused principally on the Resi and Commercial businesses. The critical question increasingly is confidence on these businesses as well. Further, will margins improve in 2018.

Q: When will margins recover?

We see utility-scale margins as improving in tandem with technology improvement. While mgmt had known for some time of the pending margin drop-off in 2017+, the key question is what shifted in recent months to drive the compression and what will drive a recovery? Mgmt points to the simple linkage between volume and margins as recovery ramps into the next ITC build in 2019

Q: What gives us confidence in the resi and commercial businesses?

We see the high efficiency panel product as returning to its core markets, focused on higher-value solutions where space limitations are a constraint. The key execution constraint here remains ramping back up on commercial amidst low-teen margin results.

UBS VIEW

We are maintaining our Buy despite the weak guidance on the Power Plant business as we suspect margins in the utility-scale business will necessarily need to reflect more than modest margins for even fully integrated developers. Further at ~\$10/sh, investors are largely paying 'just' for the two other core business – resi and commercial. We think O&M cost cuts to substantially realign the business ex-self developed projects if margins don't recover could yet be a further avenue in repositioning.

EVIDENCE

Margins on both resi and commercial have proven more sustainable and have arguably been the core of the company given its higher efficiency product – and the desirability of this product in space constrained locations such as rooftops. Further, sales like Henrietta continue to bode well for implied discount rates for projects that are ultimately transacted to key utility players (even if few)..

WHAT'S PRICED IN?

At current levels ~5.1x our forward 2018 EBITDA estimate (or ~5.6x including CAFD market value) SPWR is pricing in near-trough multiples. We expect supply/demand concerns, SUNE/SCTY company specific issues, and macro uncertainty are all dragging SPWR...

UPSIDE / DOWNSIDE SPECTRUM**COMPANY DESCRIPTION**

SunPower is one of the leading global solar solutions providers for residential, commercial, and power plant customers by offering solar module technology and solar power systems....

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SPWR has been under substantial pressure of late as the solar sector continues to unwind

Upside (US\$37): For our upside case we assume higher EBITDA stemming from reduced inefficiencies and higher demand in SPWR's core service areas driven by higher volume. Higher EBITDA reflects improved margins and shipment profile. We apply a more optimistic 8X multiple – in line with historical IPP peer ranges as well as reflecting full valuations vs peer equipment manufacturing peers.

Base (US\$13): We assume a compressed 6x EBITDA multiple on 2018 estimates to arrive at our base target devco value off our lower estimates.

Downside (US\$2): Our downside case assumes further compression of EBITDA from yet lower utility-scale margins. We apply a less optimistic 5X multiple – effectively to reflect the lower visibility of a resi and commercial business.

COMPANY DESCRIPTION

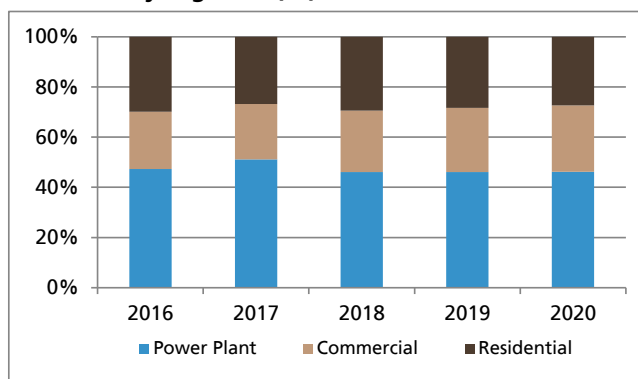
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Market Cap	US\$26.5bn
Shares Outstanding	142m
Industry	Solar
Region	Americas
Website	www.sunpower.com

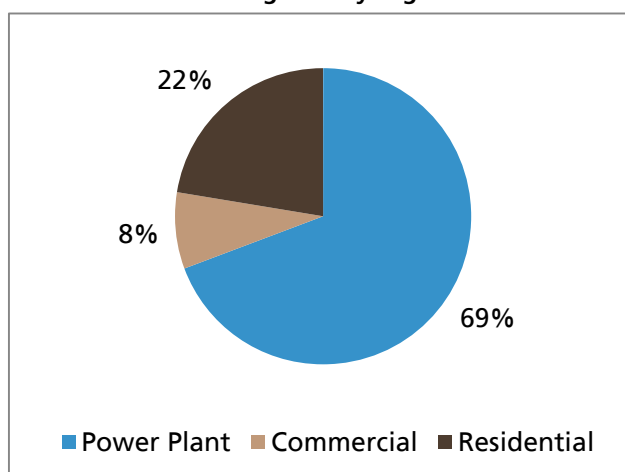
SunPower is one of the leading global solar solutions providers for residential, commercial, and power plant customers by offering solar module technology and solar power systems. It also offers integrated Smart Energy software solutions to customers for managing and monitoring their CCOE measurement. SPWR also arranges a variety of financing solutions for customers to purchase or lease high-efficiency solar products at competitive energy rates.

Industry outlook

We remain bullish on the renewable energy sector, and expect solar to continue to gain market share, benefiting from trends in installation cost declines, improvements in energy efficiency, and government subsidies at federal and state levels. However, we expect a challenging supply/demand outlook in the medium term as several high-demand countries work through incentive changes, which could affect margins at the company level.

Revenues by segment (%)

Source: Company filings and UBS estimates

Non GAAP-Gross Margin % by segment - 2015

Source: Company filings

Explaining the Situation

The latest developments after market for SunPower with 2Q results were surprising to many investors, with SPWR viewed as among the most 'resilient' to the ongoing solar downturn. It was the problematic utility-scale self-development business that drove the problems tied to the business, consistent with issues elsewhere in the sector – and the clear concerns expressed by investors for some time. Mgmt's confidence in recent quarters and bullish view at the time of its Analyst Day had alleviated concerns raised previously on this compression risk. The question will be how management can regain credibility as a premium story given its premium product amidst its substantial guide down in the latest quarter. We see the latest datapoints as the most negative developments thus far in the ongoing solar downcycle and represents substantial risk to the downside for the balance of the sector – both across module sales as well as for developers. This would appear to be a cautious comment for independent solar developers as well given the limited margin to no margin available for even integrated manufacturers such as SPWR.

Interest Rates are Low – How are Hurdles Going Up?

Among the critical questions raised by SPWR's latest guidance is how to explain the increase in investor hurdle rates amidst record low interest rates. We flag the YieldCo sector has recently recovered to recent relative heights once more in equity valuations as well, with the Yield cycle poised to recover. Further, we find it notable for mgmt. to cite challenges in higher hurdle rates amidst its YieldCo subsidiary having the best valuation of peers in the sector. The question is whether higher margins at the time of its Analyst Day had been predicated on a higher equity valuation for CAFD to ensure a lofty valuation for its developed projects in terms of sell-down.

Tax equity and the bonus depreciation cycle

Among the real dynamics that has emerged of late is the higher cost of tax equity and more limited tax appetite for utilities. The more limited appetite is due to bonus depreciation extension, which satiated the tax appetite for many utilities through much of the decade. In turn, hurdle rates because of the deferred tax benefits have been increased for the potential utility buyers approached previously

The Henrietta Datapoint: This is probably not the lone datapoint?

We had been constructive into 2Q results principally on the back of the \$447 Mn agreed for the 100MW 51% stake in the Henrietta project (as well as 10% further stake in another 74MW solar project in nC); we note of this sum, SO appears to be paying ~\$150 Mn for the ITCs and ~2/3rds for the PPA attributes. Bottom line, this datapoint had appeared quite robust to us, particularly following on the heels of a ~14x EV/EBITDA transaction to NYLD yesterday. Net-net, it would appear this sale was in some respects a selectively advantaged project given the meaningfully above-market contract for the project. Mgmt further acknowledged that Henrietta would substantially contribute to 3Q results – likely driving the bulk of the higher EBITDA on offer.

Signing negative margin PPAs? Admitting problems from last year.

Among the most cautious datapoints from the call was the admission that under the current backdrop of market conditions, certain PPAs signed last year did not appear economic any longer due to an inability to monetize at positive margins.

We emphasize the utility-scale business posted a negative -1.6% aggregate margin overall in the current quarter.

Will the latest doubt on the sector push PPAs higher?

We've noted for some time the willingness of developers and buyers of infrastructure like assets alike to take lower returns—and in-turn sign progressively lower market rates on PPAs. SPWR garnered attention last year for signing high \$30/MWh PPAs in Nevada; it states in its presentation concerns around PPAs signed below \$50/MWh more broadly. The question is precisely what had mgmt. been assuming at the time of those deals to ensure adequate margins were achieved?

What's the big readthrough? FSLR.

We see the SPWR datapoints on utility-scale datapoints as particularly cautious for the predominantly utility-scale developer FSLR as it looks to next year. In tandem with datapoints of a substantial sell-down of mgmt's equity yesterday, we suspect there could yet be further pressure on FSLR shares tomorrow following their own weak guidance last week. We note our margins in our FSLR model continue to reflect high teen margins in future years. The SPWR challenges only further validate the shift in margin towards a panel-only focus away from self-development.

Just How Weak is Power Plant Segment Guidance?

2017 preliminary guidance included essentially only DG profitability with neutral power plant EBITDA, while power plants would actually be a substantial contributor to volume targets in light of SPWR's 1.1GW deployment range for power plant (50% of which is contracted). While we have long thought go-forward power plant margins would be challenging, EBITDA break-even suggests the PPA atmosphere is borderline uneconomic, though management appears to be attempting to take all of the negative news in one quarter in this instance. We note the company suggested some project push outs from 2016 to 2017-18, which could imply an even more challenging PPA atmosphere than we had expected. However, we think the company is unlikely to bid the majority of projects at uneconomic margins and this suggests that SPWR is taking a more conservative approach to external projections. Past Oasis rollouts have been above the company's expectation, so we think there is a healthy level of conservatism baked into power plant assumptions today.

DG is the Saving Grace: But Less Visibility could pressure multiple

SPWR's more pronounced pivot to the DG business suggests the strength of the company's diversified model is working, though the continued shift to cash sales could actually impact adjusted EBITDA in the near term as tax monetization is more easily achieved from leases. Nonetheless, challenges on the utility front are clearly more pronounced than management had expected while management noted continued demand for the resi products, particularly the integrated Equinox product. However, DG is an inherently short cycle business and we note the company's near term focus on DG should allow a more meaningful change in the power plant business as the company continues to bid on 2018 large scale projects. We view this as the latest example of an opportunistic 2017 expectations reset (FSLR being the first), which will allow the company to implement the tough choices needed to make 2017 the trough year while still maintaining the core business lines.

We are reducing our multiple to 6x from 7x to reflect this reduced confidence in forward estimates

Refocusing Some Module Production to Remain Competitive

SPWR's shift of module assembly from the Philippines into Mexico suggests the company is doubling down on North and South American Markets in some respects – a decision which has already proven advantageous with the recent ~500MW Mexican project win. In an increasingly challenging PPA environment, local manufacturing and associated project bidding benefits should serve the company well both in the US and emerging South American markets. Mgmt emphasizes it is not reducing total planned MWs at this time with a shift way from system development effectively backfilled with lower nominal margins for module-only sales, effectively the parallel strategy pursued by FSLR.

The Rise of the Global IPP: Competition Beckons

In many ways the latest pressure playing out on SPWR is the concern we raised last year around SunEdison pertaining to an increasingly competitive backdrop of IPPs, Utilities, and Solar Developers all focused on building out projects amidst a modest pullback in the US market given timing of many projects into the 2016 period. The question is whether European peers such as Enel will continue to leverage their exceptionally low cost of capital to compete down returns for higher cost of capital independent developers such as SPWR. Amidst limited opportunities elsewhere for investment dollars for the likes of these IPPs, we suspect pressures on solar returns could remain. The question is whether the zero-or-single digit margins implied by SPWR are truly accurate where even integrated vendors cannot

Where is management focused now? Self-Development in select markets

Mgmt emphasizes it will focus only on constructing and owning projects in the US, LatAm, and France. It also appears to add Japan to this list, at least in terms of projects already under development with modestly higher margins. Specifically, it sees higher margins available in Mexico and Chile; we attribute these to locational advantages and supplier benefits for in-country manufacturing in the Mexican case and more credit-specific considerations for development in Chile with bilateral exposure to mostly large miners.

Total opportunities in Africa and Middle East remain the further angle

Mgmt stresses in the international arena it would continue to pursue opportunities on largely an equipment basis (lower total revenue opportunity), with a focus on cross-marketing in regions where Total has substantial market share. While this angle has yet to meaningfully play itself out, we suspect this is indeed a real eventuality.

What's our Call on Shares?

We believe a meaningful recovery in shares could be a 2017 event as future 2018/19 utility-scale margin recovery will become more tangible. Further 2017 should provide greater comfort around the continued buildout of panel supply – and efforts to rationalize. We emphasize the downside is likely limited to the extent Total is willing to buy back in the equity to limit complete collapse of the project. While the most negative 2Q call update yet – we suggest investors not overreact to datapoints amidst what appears a potential for improvement later this decade. At a minimum, a repositioning of the company around lower O&M without this business segment and/or shift towards more resi business could be the next move in a protracted downturn for utility-scale.

Updated Estimates

We reflect our latest estimates on shares below, dropping EBITDA to reflect reduced gross margins down to the mid-single digits through the near-term, the lowest level of peers in recent periods. The table below clearly illustrates the dramatic decline in margins for 2016, with a gradual ramp back up for development activities.

While mgmt. offered little forward looking commentary (consistent with peers), we emphasize our own datapoints would suggest margins appear better particularly by ~2019 as the next ramp-down in ITC projects begins. Net-net, there is potential for real improvement in margins.

Figure 1: SPWR Estimates

Non GAAP Gross Margin (%)	2014	2015	2016 E	2017 E	2018 E	2019 E
Power Plant	21%	28%	5%	5%	8%	12%
Commercial	13%	13%	13%	16%	16%	16%
Residential	21%	22%	20%	22%	21%	21%
Total	19.6%	23.9%	12.1%	12.2%	14.0%	15.8%
SPWR EBITDA Reconciliation	2014	2015	2016 E	2017 E	2018 E	2019 E
Start: Non-GAAP Net Income	\$205.1	\$337.8	\$40.3	\$94.3	\$214.9	\$311.7
+ Cash interest Expense	\$48.4	\$37.6	\$60.7	\$65.1	\$67.3	\$70.3
+Income taxes	\$13.0	\$47.7	\$20.0	\$20.0	\$25.0	\$30.0
+Depreciation	\$107.4	\$133.5	\$170.0	\$178.7	\$166.2	\$155.6
EBITDA	\$374	\$557	\$291 	\$358 	\$473	\$568
	<i>Guidance</i>		275-325	300-400		

Source: Company reports and UBS estimates

What does this mean?

The story is now substantially more exposed to developments in the residential market and commercial market as the baseline to support cash flow and opex for the business relies on not just module sales, but specifically residential and commercial sales of fully developed projects within the OECD countries principally. We emphasize with 68% either loans or cash sales, the company is meaningfully more protracted from the downturn in the lease market seen by SCTY and other resi players of late. We note margins in this segment have remained substantially more stable in recent quarters and years.

Updated Valuation

We include our latest below, dropping our estimates, but also dropping our multiple a turn to reflect less of a premium solar play vs. peers down to 6x EV/EBITDA.

Still Near Historical Lows on multiples

Our recent work suggests historical valuation trough for forward EBITDA is just under 4X (3.7x) with current SPWR valuation in the 4-5x range pre-Q2 update, but shift to guidance cut and likely slashed street expectations for margin achievement in 2017 and 2018 could yield a richer implied valuation on updated ests.

Figure 2: SPWR SOP Valuation

SunPower Valuation			
DevCo Value	Downside	Base	Upside
Capacity Built (MW) - 2018			
Resi	613	766	919
C&I	591	739	886
Utility	985	1231	1477
Total MW Capacity	2189	2736	3283
\$/Watt Costs			
Resi	\$1.62	\$1.62	\$1.62
C&I	\$1.45	\$1.45	\$1.45
Utility	\$1.50	\$1.50	\$1.50
Development margin (%)			
Resi	15%	21%	27%
C&I	11%	16%	21%
Utility	6%	8%	10%
Overall	10%	14%	18%
<i>LT Guidance high teens to low 20s</i>			
Gross Margin (\$ Mn)			
Resi	146	261	408
C&I	98	175	273
Utility	83	148	230
Total	327	584	911
Opex	(\$547)	(\$547)	(\$547)
EBITDA Adjustments	\$504	\$436	\$157
Proportional EBITDA (\$ Mn)			
Resi	\$127	\$212	\$233
C&I	\$85	\$142	\$156
Utility	\$72	\$120	\$132
Adjusted EBITDA	284	473	521
EV/EBITDA	5.0x	6.0x	9.0x
Implied Value	\$1,420	\$2,840	\$4,686
DevCo Value to SPWR	9	18	30
CAFD LP Ownership Interest			
SPWR Shares		28.88	
Total Shares		71.01	
Sponsor Ownership	40.7%	40.7%	40.7%
Total Current Shares	71	71	71
UBSe CAFD Share Price	\$10	\$11	\$19
Implied Mkt Cap (\$M)	\$710	\$787	\$1,349
SPWR's share of LP Value	289	320	549
CAFD Value to SPWR	1.8	2.0	3.5
CAFD GP Ownership Interest			
IDR (\$mn) (Base: through 2019)	0.0	0.0	0.0
CAFD GP Value to SPWR	0.0	0.0	0.0
Parent Obligations			
Value/Sh.			
Converts (\$mn)			
Outstanding			
0.875% debentures due 2021		397	
0.75% debentures due 2018		298	
4% debentures due 2023		417	
Total Converts		1111	
IFC mortgage loan		24	
CEDA loan		28	
Other debt		503	
Total Debt		556	
Minimum lease payments for assets under capital leases		6	
Cash Outstanding		555	
Net Debt		1118	
Obligations per Share		7.05	
Value of to SPWR		(7.0)	
SPWR Equity Value per Share	4	13	26

Source: UBS estimates

SunPower Corp (SPWR.O)

	12/13	12/14	12/15	12/16E	% ch	12/17E	% ch	12/18E	12/19E	12/20E
Income statement (US\$m)										
Revenues	2,602	2,619	2,613	2,935	12.3	3,756	28.0	4,165	4,563	5,219
Gross profit	530	514	625	357	-43.0	459	28.8	584	719	819
EBITDA (UBS)	387	375	561	291	-48.1	358	23.0	473	568	643
Depreciation & amortization	(98)	(109)	(138)	(170)	23.2	(179)	5.1	(166)	(156)	(156)
EBIT (UBS)	289	267	423	121	-71.4	179	48.2	307	412	487
Associates & investment income	0	0	0	0	-	0	-	0	0	0
Other non-operating income	(47)	(65)	(131)	(162)	-24.3	(187)	-15.0	(209)	(212)	(217)
Net interest	0	0	0	(41)	-	(41)	0.0	(41)	(41)	(41)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	241	202	292	(82)	-	(48)	41.4	57	159	229
Tax	(11)	(13)	(48)	(20)	58.0	(20)	0.0	(25)	(30)	(35)
Profit after tax	230	189	245	(102)	-	(68)	33.3	32	129	194
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	62	63	112	142	26.7	162	14.0	182	182	182
Extraordinary items	(125)	41	(525)	(193)	63.2	(150)	22.3	(147)	(145)	(146)
Net earnings (local GAAP)	166	292	(168)	(153)	8.9	(56)	63.6	68	167	231
Net earnings (UBS)	292	251	357	40	-88.7	94	133.8	215	312	376
Tax rate (%)	4.7	6.5	16.3	0.0	-	0.0	-	43.5	18.8	15.3
Per share (US\$)										
EPS (UBS, diluted)	2.10	1.54	2.65	0.28	-89.3	0.63	122.6	1.36	1.84	2.07
EPS (local GAAP, diluted)	1.20	1.80	(1.24)	(1.07)	13.6	(0.37)	65.3	0.43	0.98	1.27
EPS (UBS, basic)	2.25	1.54	2.65	0.28	-89.3	0.63	122.6	1.36	1.84	2.07
Net DPS (US\$)	0.00	0.00	0.00	0.00	-	0.00	-	0.00	0.00	0.00
Cash EPS (UBS, diluted) ¹	2.81	2.21	3.67	1.48	-59.7	1.83	23.6	2.40	2.76	2.93
Book value per share	8.90	9.43	11.04	8.98	-18.6	7.49	-16.6	6.81	6.93	7.53
Average shares (diluted)	138.98	162.75	134.88	142.29	5.5	149.48	5.0	158.57	169.58	181.72
Balance sheet (US\$m)										
Cash and equivalents	763	956	955	981	2.8	1,807	84.1	2,216	2,725	3,337
Other current assets	1,452	1,447	1,560	2,054	31.6	1,704	-17.0	1,782	1,858	1,983
Total current assets	2,215	2,403	2,515	3,035	20.7	3,511	15.7	3,998	4,583	5,320
Net tangible fixed assets	879	976	1,263	1,327	5.1	1,235	-7.0	1,156	1,159	1,260
Net intangible fixed assets	0	38	120	120	0.0	120	0.0	120	120	120
Investments / other assets	805	940	960	998	4.0	1,037	3.8	1,035	1,033	1,032
Total assets	3,899	4,357	4,857	5,480	12.8	5,902	7.7	6,308	6,895	7,732
Trade payables & other ST liabilities	1,148	866	978	1,421	45.4	1,689	18.9	1,823	1,953	2,167
Short term debt	513	263	21	23	11.65	24	3.35	25	27	29
Total current liabilities	1,660	1,130	999	1,445	44.7	1,713	18.6	1,848	1,979	2,195
Long term debt	393	919	1,590	1,752	10.2	1,810	3.3	1,870	1,978	2,154
Other long term liabilities	691	733	760	1,006	32.4	1,258	25.1	1,510	1,762	2,015
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	2,745	2,781	3,348	4,202	25.5	4,782	13.8	5,228	5,720	6,364
Common s/h equity	1,154	1,576	1,509	1,278	-15.3	1,120	-12.4	1,080	1,175	1,368
Minority interests	0	0	0	0	-	0	-	0	0	0
Total liabilities & equity	3,899	4,357	4,857	5,480	12.8	5,902	7.7	6,308	6,895	7,732
Cash flow (US\$m)										
Net income (before pref divs)	166	292	(168)	(153)	8.9	(56)	63.6	68	167	231
Depreciation & amortization	98	109	138	170	23.2	179	5.1	166	156	156
Net change in working capital	(14)	(374)	(619)	(50)	91.9	618	-	55	54	89
Other operating	44	91	55	53	-3.1	61	15.7	104	106	105
Operating cash flow	295	117	(594)	20	-	802	NM	394	483	581
Tangible capital expenditure	(152)	(166)	(328)	(234)	28.6	(86)	63.3	(87)	(159)	(257)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	0	0	0	0	-	0	-	0	0	0
Other investing	(2)	(144)	(102)	(102)	-	(102)	-	(102)	(102)	(102)
Investing cash flow	(154)	(309)	(430)	(336)	21.8	(188)	44.1	(189)	(261)	(359)
Equity dividends paid	0	0	0	0	-	0	-	0	0	0
Share issues / (buybacks)	(20)	(58)	(44)	47	-	26	-45.0	26	48	77
Other financing	100	99	252	252	0.00	252	0.00	252	252	252
Change in debt & pref shares	214	457	412	164	-60.12	59	-63.80	60	110	178
Financing cash flow	294	499	620	463	-25.3	337	-27.2	339	409	507
Cash flow inc/(dec) in cash	436	307	(405)	147	-	951	NM	543	632	729
FX / non cash items	(131)	(113)	403	(120)	-	(126)	-5.2	(134)	(122)	(116)
Balance sheet inc/(dec) in cash	305	194	(2)	27	-	825	NM	409	509	612

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.¹Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

SunPower Corp (SPWR.O)

Valuation (x)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
P/E (local GAAP, diluted)	16.9	18.3	NM	NM	NM	24.7	10.7	8.3
P/E (UBS, diluted)	9.7	21.3	10.5	37.3	16.8	7.8	5.8	5.1
P/CEPS	6.7	14.9	7.6	7.2	5.8	4.4	3.8	3.6
Equity FCF (UBS) yield %	5.7	(1.0)	(19.9)	(12.1)	40.5	17.3	18.3	18.3
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
P/BV x	2.3	3.5	2.5	1.2	1.4	1.6	1.5	1.4
EV/revenues (core)	1.0	1.9	1.8	0.6	0.5	0.4	0.4	0.3
EV/EBITDA (core)	6.5	13.0	8.3	6.1	4.9	3.7	3.1	2.7
EV/EBIT (core)	6.5	13.0	8.3	6.1	4.9	3.7	3.1	2.7
EV/OpFCF (core)	6.5	13.1	8.3	6.1	4.9	3.7	3.1	2.8
EV/op. invested capital	2.3	3.7	2.8	1.0	1.0	1.4	2.2	2.9
Enterprise value (US\$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Market cap.	2,537	4,876	4,635	1,768	1,768	1,768	1,768	1,768
Net debt (cash)	(26)	0	(1)	(2)	(2)	(2)	(2)	(2)
Buy out of minorities	0	0	0	0	0	0	0	0
Pension provisions/other	0	0	0	0	0	0	0	0
Total enterprise value	2,511	4,876	4,634	1,766	1,766	1,766	1,766	1,766
Non core assets	0	0	0	0	0	0	0	0
Core enterprise value	2,511	4,876	4,634	1,766	1,766	1,766	1,766	1,766
Growth (%)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenue	-0.8	0.6	-0.2	12.3	28.0	10.9	9.6	14.4
EBITDA (UBS)	NM	-3.0	49.5	-48.1	23.0	32.2	19.9	13.3
EBIT (UBS)	-	-7.7	58.7	-71.4	48.2	71.2	34.1	18.2
EPS (UBS, diluted)	-	-26.4	71.4	-89.3	122.6	114.9	35.6	12.7
Net DPS	-	-	-	-	-	-	-	-
Margins & Profitability (%)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Gross profit margin	20.4	19.6	23.9	12.1	12.2	14.0	15.8	15.7
EBITDA margin	14.9	14.3	21.5	9.9	9.5	11.4	12.4	12.3
EBIT margin	11.1	10.2	16.2	4.1	4.8	7.4	9.0	9.3
Net earnings (UBS) margin	11.2	9.6	13.7	1.4	2.5	5.2	6.8	7.2
ROIC (EBIT)	26.4	20.4	25.1	6.5	10.2	23.8	52.4	79.1
ROIC post tax	25.2	19.1	21.0	6.5	10.2	13.4	42.5	67.0
ROE (UBS)	27.2	18.4	23.2	2.9	7.9	19.5	27.6	29.6
Capital structure & Coverage (x)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Net debt / EBITDA	0.8	0.6	1.2	2.8	2.4	0.2	(0.4)	(0.8)
Net debt / total equity %	26.5	14.9	43.5	64.2	76.2	8.2	(18.0)	(39.7)
Net debt / (net debt + total equity) %	21.0	12.9	30.3	39.1	43.2	7.5	(21.9)	(65.7)
Net debt/EV %	12.2	4.8	14.2	46.5	48.3	5.0	(12.0)	(30.7)
Capex / depreciation %	154.3	152.2	NM	137.9	48.1	52.6	102.0	165.0
Capex / revenue %	5.8	6.3	12.6	8.0	2.3	2.1	3.5	4.9
EBIT / net interest	-	-	-	3.0	4.4	7.5	10.1	12.0
Dividend cover (UBS)	-	-	-	-	-	-	-	-
Div. payout ratio (UBS) %	-	-	-	-	-	-	-	-
Revenues by division (US\$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Others	2,602	2,619	2,613	2,935	3,756	4,165	4,563	5,219
Total	2,602	2,619	2,613	2,935	3,756	4,165	4,563	5,219
EBIT (UBS) by division (US\$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Others	289	267	423	121	179	307	412	487
Total	289	267	423	121	179	307	412	487

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Forecast returns

Forecast price appreciation	+22.9%
Forecast dividend yield	0.0%
Forecast stock return	+22.9%
Market return assumption	5.7%
Forecast excess return	+17.2%

Valuation Method and Risk Statement

Risks to SunPower (SPWR) include but are not limited to: inability to raise debt, equity, working capital, and other capital sources to finance development of solar projects; rising interest rates and financing costs; lack of liquidity and failure to meet liabilities and other obligations as due; inability to transact with its jointly-owned YieldCo entities in an accretive fashion; counterparty defaults; inability to transact with third parties and realize gross margins; supply/demand imbalances; increasing cost structure and failure of solar technology to achieve 'grid parity'; increased competition for project development opportunities pressuring realized margins; technological defects and obsolescence; loss of and/or infringement on intellectual property rights; losses from cyber-attacks; lack of raw materials and necessary components needed to manufacture solar modules; supply chain delays or interruptions; sudden removal of existing government subsidies such as tax rebates or feed-in tariffs.; unfavorable international, federal, state, or local legislation/regulation; unforeseen environmental liabilities for its hazardous materials used in solar manufacturing; natural disasters; labor strikes and other unrest; adverse changes to tax subsidies for solar generation, unfavorable weather (solar resource generation); sustained declines in oil prices; shareholder and class action litigation; insider and/or concentrated shareholder selling and below-average customer demand.

Our PT remains derived via an EV/EBITDA-derived SOP.

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	47%	32%
Neutral	FSR is between -6% and 6% of the MRA.	38%	25%
Sell	FSR is > 6% below the MRA.	15%	21%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 30 June 2016.

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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UBS Securities LLC: Julien Dumoulin-Smith; Jeremiah Booream, CFA; Paul Zimbardo.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
8Point3 Energy Partners LP ¹⁶	CAFD.O	Sell	N/A	US\$16.47	09 Aug 2016
SunPower Corp ¹⁶	SPWR.O	Buy	N/A	US\$14.78	09 Aug 2016

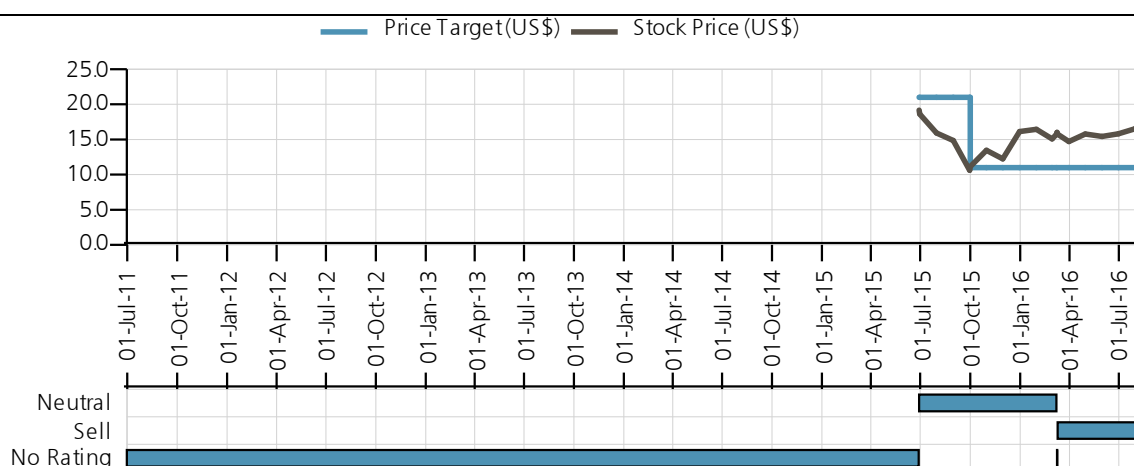
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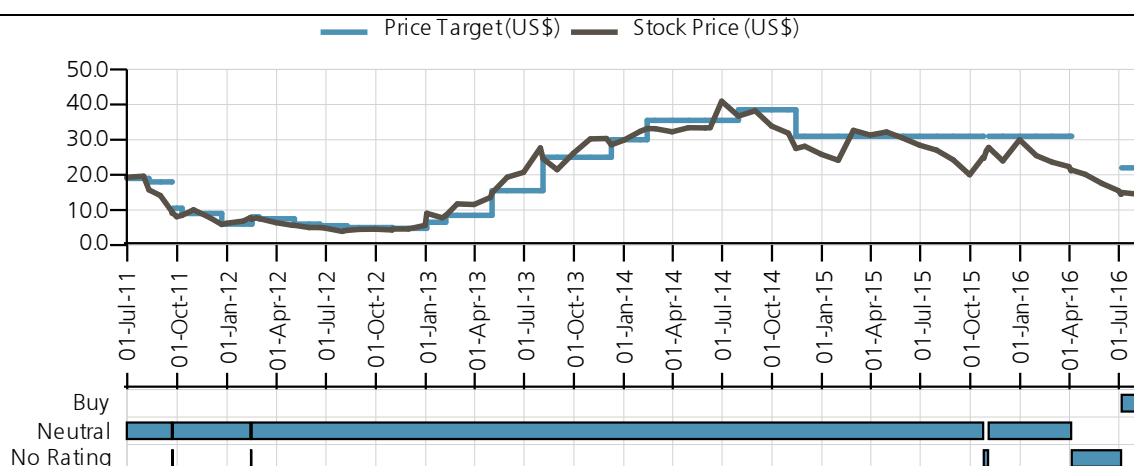
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8Point3 Energy Partners LP (US\$)



Source: UBS; as of 09 Aug 2016

SunPower Corp (US\$)



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