



Should You Power Up Your Portfolio With Canadian Solar Inc.?

Description

Canadian Solar Inc. ([NASDAQ:CSIQ](#)), one of the world's largest solar power companies, announced better-than-expected first-quarter earnings results on the morning of May 7 and its stock has responded by rising over 5% in the trading sessions since. Let's take a closer look at the results to determine if we should consider initiating long-term positions today, or if we should wait for the rally to subside.

Record module shipments lead to incredible growth

Here's a summary of Canadian Solar's first-quarter earnings results compared with what analysts had anticipated and its results in the same period a year ago. All figures are in U.S. dollars.

Metric	Reported	Expected	Year-Ago
Diluted Earnings Per Share	\$1.04	\$0.60	\$0.07
Revenue	\$860.89 million	\$626.34 million	\$466.32 million

Source: *Financial Times*

Canadian Solar's diluted earnings per share increased 1,385.7% and its revenue increased 84.6% compared with the first quarter of fiscal 2014. These very strong results can be attributed to the company's solar module shipments totaling 1.23 gigawatts (GW) during the quarter, of which 1.03 GW were recognized in revenue, compared with just 500 megawatts (MW) recognized in revenue in the year-ago period.

Here's a quick breakdown of 10 other notable statistics from the report compared with the year-ago period:

1. Net income increased 1,521.2% to \$61.33 million
2. Revenue in the Americas increased 106% to \$419.1 million
3. Revenue in Asia and other regions increased 23.1% to \$289 million
4. Revenue in Europe increased 441.8% to \$152.8 million

5. Gross profit increased 122.9% to \$152.96 million
6. Gross margin expanded 310 basis points to 17.8%
7. Operating income increased 196.2% to \$78.72 million
8. Operating margin expanded 340 basis points to 9.1%
9. Ended the quarter with \$781 million in cash and cash equivalents, an increase of 15% from the beginning of the quarter
10. Total assets increased 19.1% to \$3.33 billion

Should you buy in to the rally?

The first quarter was one for the record books for Canadian Solar, so I think its stock has responded correctly by rising over 5%.

However, I think this is only the beginning of a sustained rally higher because the stock still trades at very low valuations, including just 12.3 times fiscal 2015's estimated earnings per share of \$2.95 and a mere 10.3 times fiscal 2016's estimated earnings per share of \$3.53, both of which are very inexpensive compared with its five-year average price-to-earnings multiple of 27.9 and the industry average multiple of 14.5.

I think Canadian Solar's stock could consistently command a fair multiple of at least 15, which would place its shares upwards of \$44 by the conclusion of fiscal 2015 and upwards of \$52 by the conclusion of fiscal 2016, representing upside or more than 20% and 42%, respectively, from today's levels.

With all of the information provided above in mind, I think Canadian Solar represents the best long-term investment opportunity in the solar industry today. Foolish investors should take a closer look and strongly consider establishing positions.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NASDAQ:CSIQ (Canadian Solar Inc.)

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