



## Is Canadian Solar Inc. a Buy Following the 18% Earnings-Induced Sell-Off?

### Description

**Canadian Solar Inc.** ([NASDAQ:CSIQ](#)), one of the world's largest solar power companies, announced better-than-expected second-quarter earnings results after the market closed on August 18, but its stock responded by falling over 18% in the trading session that followed. The stock now sits more than 50% below its 52-week high of \$41.12 reached back in September 2014, so let's take a closer look at the results to determine if a sell-off of this magnitude was warranted, or if it represents a long-term buying opportunity.

### The results that ignited the sell-off

Here's a summary of Canadian Solar's second-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
Earnings Per Diluted Share	\$0.31	\$0.13	\$0.95
Revenue	\$636.65 million	\$592.50 million	\$623.77 million

Source: *Financial Times*

Canadian Solar's earnings per diluted share decreased 67.4% and its revenue increased 2.1% compared with the second quarter of fiscal 2014. The company's steep decline in earnings per share can be attributed to its net income decreasing 68% to \$17.86 million, led lower by its total costs of sales increasing 6.8% to \$540.11 million.

Its slight revenue growth can be attributed to its total solar module shipments recognized in revenue totaling 809 megawatts (MW) in the second quarter, an increase of 25.2% from the 646 MW recognized in revenue in the year-ago period.

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

1. Total solar module shipments increased 31.6% to 850 MW
2. Revenue in the Americas decreased 12.5% to \$302.8 million
3. Revenue in Asia and other regions increased 59% to \$296.1 million
4. Revenue in Europe decreased 58.7% to \$37.8 million
5. Gross profit decreased 18.3% to \$96.54 million
6. Gross margin contracted 380 basis points to 15.2%
7. Income from operations decreased 52% to \$32.49 million
8. Operating margin contracted 580 basis points to 5.1%

Even though the results above surpassed analysts' expectations, the sentiment surrounding the report turned negative when Canadian Solar went on to provide weak outlook on the third quarter. The company stated that it expects revenue in the range of \$570-620 million, which fell well short of analysts' estimates of \$669.32 million, and a gross margin in the range of 12-14%, which would be down significantly from the 22.9% margin reported in the year-ago period.

### **Should you buy Canadian Solar following the steep decline?**

The second quarter was far from impressive for Canadian Solar, and its outlook on the third quarter is abysmal, so I think the post-earnings sell-off in its stock was warranted. However, I think these negative factors are priced into the stock at this point and the downside will be limited from here.

It now trades at very inexpensive forward valuations, including a mere 7.2 times fiscal 2015's estimated earnings per share of \$2.82, which is very inexpensive compared with its five-year average multiple of 26 and the industry average multiple of 13.7.

With all of the information provided above in mind, I think the post-earning sell-off in Canadian Solar represents a great long-term buying opportunity. Foolish investors should remain cautious while slowly scaling in to positions.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

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