



Don't Buy into the Canadian Solar Inc. Hype

Description

Canadian Solar Inc. ([NASDAQ:CSIQ](#)) is a stock that bulls believe could offer a big payout, but the current risk associated with the company is enough reason to avoid this Ontario corporation for now.

The solar energy equipment provider has a lot going for it as it is among the industry leaders in terms of sheer quantity of solar panels. Canadian Solar has 5.8 GW of module capacity, giving the company the opportunity to garner a larger share of the solar energy market. However, growing comes with its risks as expanding could result in higher fixed costs that have caused the demise of other companies.

Another one of the company's better moves in recent times comes in the form of a non-recourse term loan worth GBP\$49.3 million (US\$62.8 million) as part of a plan to refinance the portfolio of 10 solar power plants. These will amount to 50 MW in the United Kingdom. A construction loan worth GBP\$28.1 million (US\$35.3 million) will be repaid as part of the deal, which will exist over 18.7 years.

Canadian Solar chairman and CEO Dr. Shawn Qu discussed the matter proudly, noting that the refinancing of its portfolio with U.K. bank **NatWest** will ensure an expansion of the company's potential to offer solar energy to the world. However, the move also means higher debt for the company, which has experienced some setbacks recently.

Bulls will note that the declining cost of solar energy boosts the potential for the industry to grow, but this growth sometimes causes companies to struggle. At the end of the company's third quarter, Canadian Solar held \$1.2 billion of project assets on its balance sheet. Higher rates mean lower value for these projects, amounting to a dip of about 18%. The company was also hampered by an event that has yet to fully rear its ugly head.

The price of solar modules fell drastically in the company's third quarter with prices slumping 25% over the three months. The change didn't immediately affect Canadian Solar as the company revealed that it beat earnings expectations by three cents per share when it reported on its third quarter about a month ago. However, the current quarter will see lower revenue and earnings as it will have to reduce the prices of its assets.

The company is better positioned to absorb this hit than other solar energy providers due its low-cost

manufacturing structure. Companies with less volume of modules will be affected more. Nevertheless, Canadian Solar will still face financial trouble due to the price decline of solar modules as such an event will result in lower profits for the industry as a whole.

Overall, analysts are calling for an EPS decline of 28.7% for the current fiscal year. Firms polled by *Thomson Reuters* give CSIQ shares a rating of 2.70, which is between two (which is a “Buy”) and three (which is a “Hold” rating). The price target is at \$15.72 within the next year on an average basis. The stock is down 57.4% year-to-date, and Canadian Solar has market capitalization of \$722.58 million.

While there is some upside to investing in CSIQ thanks to the company’s potential following its expansion, there are no guarantees that growth will boost profits for Canadian Solar as costs will be much higher than before. Additionally, a weaker market for the solar industry could spell trouble for the company in 2017.

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