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SunPower's outlook worsened by Trump's solar panel tariffs

by Liu Hanlei

President Trump announced the first tariffs of his administration by enacting tariffs on solar panels imported into the US on 22 Jan 2018 after a trade case was filed in Apr 2017 on the damages caused by low-cost imports on US producers of polysilicon-based solar panels. Previously, the US had already imposed restrictions on Chinese solar products but according to US trade representatives, the Chinese firms simply moved production to other countries. From 2012 to 2016, 95% of solar cells and panels in the US market were imported and has increased by fivefold causing prices to drop by 60% over the same period. Many US solar firms struggled to compete on price and more than two dozen of these firms have ceased operation.

The 30% tariffs on imported solar panels started on 7 Feb 2018 and are scheduled to decrease to 15% over four years and expire thereafter. The objective of the tariffs is to boost US solar manufacturers and level the playing field with Asian manufacturers, especially Chinese companies. However, many players in the solar industry such as the Solar Energy Industries Association have voiced concerns about potential job losses in the industry and cancellation of solar investments due to the import tariffs. SunPower Corp is one of those voices and has declared that it will postpone its USD 20mn factory expansion in the US.

Despite being the top two US solar panel manufacturers, First Solar and SunPower face different effects on the implementation of tariffs on imported solar panels. First Solar is a manufacturer of thin-film solar panel and imports from Malaysia and Vietnam but is exempted from the tariffs as the technology it uses to produce the panels is different from that of the rest of the industry. First Solar mainly provides solar energy solutions to large-scale grid connected photovoltaic power plants. Analysts are predicting that there may be a market-share shift towards First Solar panels in the medium term. SunPower, on the other hand, would be impacted by the tariff. SunPower manufactures most of its solar panels in Malaysia, the Philippines and Mexico and provides solar systems that target not only solar power plants, but is also moving towards homeowners which enjoy higher gross margins. SunPower's CEO has warned that the increased cost from the tariffs is going to have a negative near-term impact and delay certain 2018 projects. The import tariffs on solar cells and modules is expected to slow demand for SunPower's panel in the US, which it derived 85% of its revenue from and decreases EBITDA by USD 50-100mn for 2018 earnings.

Fundamentally, SunPower is already in a poor shape in addition to its high leverage. It has been making losses for the past quarters as seen in Table 1 and financial leverage has been increasing which is mainly used to finance solar power projects. SunPower also announced cutting 3% of its workforce and would incur USD 20-30mn restructuring charges, largely related to severance benefits and real estate lease terminations. In order to improve its financial standing, SunPower plans to deleverage by selling its stake in 8point3 Energy Partners yieldco for USD 350mn and other residential lease portfolio to bring in USD 200mn. The proceeds may help to pay down its USD 300mn convertible due in Jun 2018.

		2016Q4	2017Q1	2017Q2	2017Q3	2017Q4
SunPower Corp	Operating income (USD mn)	-122.8	-118.7	-73.4	-73.4	-263.6
	Net debt/equity (%)	101.25	125.4	148.88	156.56	443.55
First Solar Inc	Operating income (USD mn)	-20.6	13.2	40.6	220.4	-11.8
	Net debt/equity (%)	Net cash position				

Table 1: Financial Data for SunPower Corp & First Solar Inc. *Source: Bloomberg*

First Solar, on the other hand, is on a better footing with a net cash balance sheet and positive operating income for most of its past quarters. In the third quarter of 2017, it signed a record 4.5 gigawatts of new orders, giving it an order book size of 7.4 gigawatts, accounting for much of the solar panels it expects to produce into 2020. The jump in order could be attributed to the exclusion of its panels from the solar imports tariffs.

In Figure 1, the term structures of the RMI-CRI Forward 1-year Probability of Default (Forward PD) for the two manufacturers are shown. The starting point of the curve, month 0, represents the current RMI-CRI 1-year PD, which shows that SunPower's credit profile is in a much worse position than First Solar. In addition, the shape of term structure shows that, based on the market information on Feb 23, the credit profile for SunPower could deteriorate faster than First Solar's in the following 7 months. The Forward PD computes the credit risk of a company in a future period, which can be interpreted similar to a forward interest rate. For example, the 6-month Forward 1-year PD is the probability that the firm defaults during the period from 6 months onwards to 1 year plus 6 months, conditional on the firm's survival in the next 6 months.

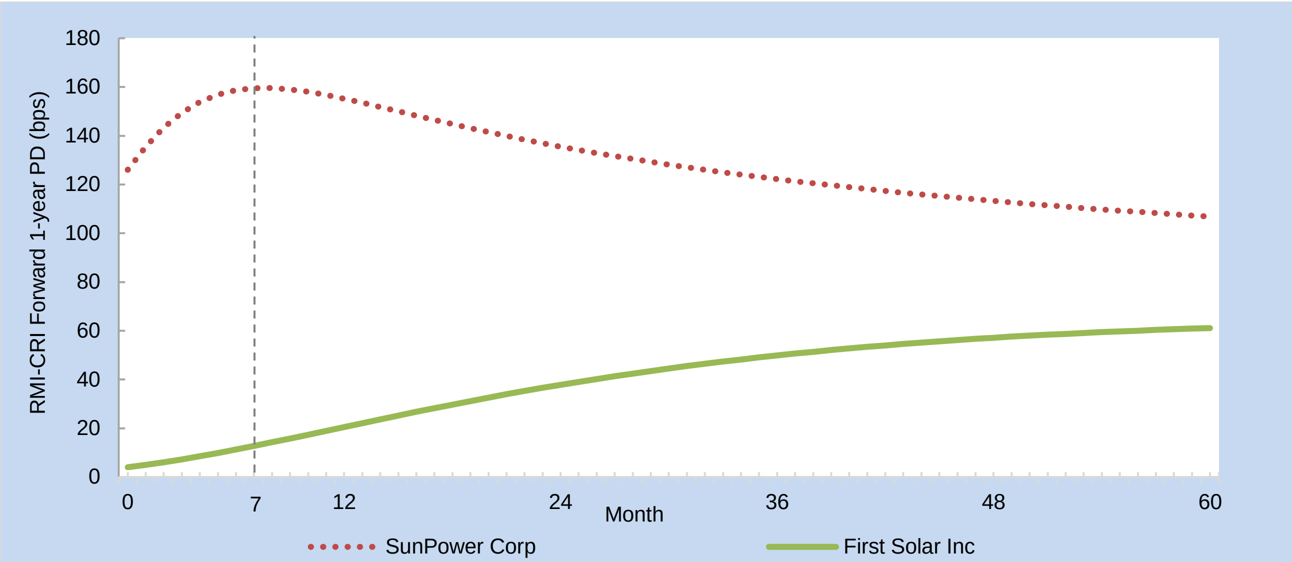

Figure 1: RMI-CRI Forward 1-year PD term structures for SunPower and First Solar on 23 Feb 2018. *Source: RMI-CRI*

Both First Solar and SunPower have plans to release their latest solar panels in the upcoming quarters, First Solar Series 6 and SunPower P-19. SunPower P-19 has a slightly higher efficiency, which is an important measure that solar farms consider. Despite SunPower's higher efficiency panel, First Solar's order book is much stronger over the past months which could be due to the price premium on SunPower's panels.

Currently, SunPower attempts to get an exemption from the import duties for its panels through a process under which companies can apply for technology-specific exemptions, just as First Solar did. However, the timeframe and prospects of being granted an exemption is still unclear. Looking ahead, given the trade headwinds and more importantly, its unfavorable financial position, SunPower's outlook in the near term is dim.

Credit News

What an extension of Xi's reign in China means for investors

Feb 26. According to analysts, China plans to change its constitution, which will allow Xi Jinping to rule beyond 2023. The news should be broadly positive for investors as it bolsters the president's ability to drive through policies, such as deleveraging and anti-pollution campaigns. The announcement on February 25 came a week before the National People's Congress that is likely to approve constitutional changes, cementing Xi's influence. Since 2013, Xi's term has been marked by a steady economy but was also accompanied by periods of volatility in the financial markets. At the same time, challenges such as taming the debt pile, the threat of slower economic growth and dealing with the aging population remain. Although the centralizing power under Xi is largely positive, the longer-term risk raises concern for the absence of checks and balances. On February 26, the yuan rose 0.4% and the Shanghai Composite Index climbed 1.3%. (Bloomberg)

Debt gobbles up KES 228bn in seven months

Feb 25. According to the National Treasury, Kenya's has spent KES 228bn to pay creditors in the first seven months of the current financial year, which was up 58% of KES 144.3bn over a similar period in the 2016/17 financial year. During the same period, the country's tax revenue were not sufficient to cover its total recurrent expenditure. The National Treasury and IMF staff have not completed a review of Kenya's KES150bn standby credit facility (SCF) mainly because of its growing fiscal deficit. IMF has warned that the country might go into a crisis similar to Greece if the government takes no action. Despite being convinced that the current debt levels are still manageable, Bretton Woods institution is concerned about more borrowing. Recently, a KES 200bn Eurobond was issued, which will be used to settle some maturing debts and development expenditures. (The Standard)

GCC sovereign commercial debts set decline 15%

Feb 25. According to S&P, gross commercial long-term borrowings of Gulf Cooperation Council (GCC) governments are expected to come down by 15% to USD 68bn this year from USD 80bn in 2017. This is because the higher oil prices will likely reduce GCC sovereigns' funding needs and the fiscal consolidation measures is in effect in all GCC counties. In addition, most GCC countries intend to diversify the funding strategies instead of largely relying on debt borrowings. According to S&P estimates, the sovereign borrowing in the Middle East and North African could decrease by 6% this year; 40% of Mena sovereign gross borrowings this year will go toward refinancing maturing long-term debt. Total government debts of the region will slightly increase by 2% YoY. S&P also expects outstanding short-term commercial debt to fall to USD 131bn by the end of 2018. (Gulf News)

Mozambique to table restructuring plans after default

Feb 23. Mozambique is planning a stakeholder meeting in London next month to discuss its USD 2bn of debt and restructuring proposal after it went default more than a year ago. The country has not met this long-overdue debt-restructuring obligation ever since it announced its incapability to service the commercial loans. Following the announcement of an upcoming restructuring discussion, Mozambique's Eurobonds gained 2.8% to 86 cents, the highest level since they were sold in April 2016. Mixed reactions arise from the Eurobonds holders with some groups believing that the restructuring is unnecessary due to the government's sufficient improvement in interest payments. Following the initial talks in December, the Global Group of Mozambique Bondholders' advisers intends to have a discussion to define the process and debt-sustainability assumption. (Bloomberg)

Congo seeks relief talks with oil traders over USD 2bn debt

Feb 20. Congo Republic evoked debt relief talks with trading houses over its USD 2bn debt to resolve its unsustainable debt level. This crude-cargoes-guaranteed debt to oil traders primarily from Trafigura and Glencore has led to Congo's total debt of USD 9.4bn, 110% of Congo's total GDP. Under IMF's pressure to restructure its debt, Congo has appointed Lazard as an advisor to restore its medium-term debt sustainability. Congo has taken some actions to cut 2018 spending by 9% and increase its revenue driver, oil production, by 25%. However, trade sources fear may result in prolonged talks with the traders who are unwilling to improve credit terms, raising concerns against IMF's tough terms on Congo's IMF bailout approval. (Reuters)

Carillion executive sold USD 1.1mn in shares before collapse (Bloomberg)

NY supermarket chain tops files bankruptcy, cites debt and Amazon (CNBC)

Mulvaney says US can outgrow higher spending, debt costs (Bloomberg)

Regulatory Updates

China cuts banking red tape to rally foreign investment

Feb 24. According to Xinhua media agency, the China Banking Regulatory Commission (CBRC) has introduced steps to cut red tapes within foreign banks as part of the government's ongoing efforts to promote foreign investment in the country's fast-growing financial sector. CBRC revised its rules for foreign banks, scrapping approval procedures in four areas including overseas wealth management products and portfolio investment funds. The new policies has become effective on Feb 13, 2018. With the market share of foreign bank halving to 1.2% in the past 10 years, this is not beneficial for promoting competition. The new changes will mean that foreign banks only need to report their services to authorities rather than obtaining approval in advance. Steps for setting up new branches, appointing executives and issuing bonds have been simplified as well. The commission also clarified on the procedures and application documents for foreign-funded banks to invest in domestic banking institutions. (Reuters)

India is said to revive plan for real-time default disclosures

Feb 23. India's finance ministry is in talks with the market regulator for real-time default disclosures. Early in 2017 August circular, the Securities and Exchange Board (SEBI) required companies to report a disclosure within one working day from the date of default starting Oct 1, 2017. However, the effort was deferred with some banks questioning the requirement. Amidst struggles to solve USD 210bn in bad loans, Indian policy makers faced more pressure after the scam involving Punjab National Bank came to light last week. The new rules would help to hasten the recognition of stressed assets by banks and reduce information asymmetry in lenders. (Bloomberg)

Singapore aims for new jobs, in revamp of marine and offshore engineering sector (Straits Times)

Regulator in China seizes control of Anbang as chairman prosecuted (Straits Times)

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