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## Is It a Solar Bottom? Analysts Say No

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Tue Mar 31, 2009 3:00am EDT

So which is it: Are solar stocks turning a long-awaited corner, or was the rally that lasted much of the last month before reversing course on Monday as part of a broad market sell-off just another dead-cat bounce?

That debate has taken place amid a volatile period in the solar sector. The Claymore/MAC Global Solar Energy ETF, an index dedicated to solar firms, dropped 8 percent Monday. In the previous four weeks, the TAN rose 50 percent, more than tripling the 16-percent rally in the S&P 500.

Some are suggesting it's time to buy beaten-down solar stocks, while others are arguing there's value because the bad news is priced in and good news is starting to emerge. Wall Street analysts, often criticized for being blindly bullish on stocks, are this time among the sector's staunchest bears.

Take China's announcement late last week that it would offer subsidies equivalent to as much as 60 percent of the cost of installation, and boost demand by as much as 200 megawatts. The news sent solar stocks soaring — even those that don't have a strong market in China. But analysts were quick to point out that details of the spending were vague and that benefits would only emerge over the long term.

That sums up the quandary for solar investors. The promise of healthy returns is oh-so-tantalizing, but always in some uncertain future. It's not so much that the solar industry is in decline — it's stalled. And bearish analysts are arguing that the industry will be stalled longer than many of the optimists realize. The bad news up to now may be priced in to stock prices, but the bad news to come is not.

That message was hammered home in a recent report from Sunil Gupta of Morgan Stanley. Not only will financing remain tight this year, he says, but prices will fall further than many expect. And while many solar manufacturers are estimating that prices of polysilicon wafers and modules will decline by 10-15 percent, Gupta sees them dropping 30-35 percent. But the real problem is excess supply. Even with demand in the U.S. and Japan likely to rise, solar companies will produce 9.6 gigawatts of supply this year, nearly double the 5.1 gigawatts last year. Customers will keep canceling orders, so inventories could pile up this year.

Gupta's glum conclusion: "Most of the companies are unlikely to produce any profit for the next two years."

There are positive signs, such as those suggesting China is helping some companies raise money. Yingli Green Energy said Friday a branch of the Bank of China would extend as much as \$880 million in loans. Solarfun's stock might have tumbled after a dismal earnings report had it not mentioned that Chinese banks remained "accommodative" with capital.

But that may simply prolong the overcapacity problem. Solar manufacturers have many more panels, modules and wafers than they can sell. The oversupply is good for customers installing solar because it means there's a lot of good, cheap solar power to install. But it's bad for solar makers — and

for a while at least for their investors as well.

The oversupply troubles may spread to thin-film makers as well. A report over the weekend from Barron' s argued that polysilicon prices are getting low enough to take market share away from First Solar and Energy Conversion Devices, whose thin-film products have been much cheaper than polysilicon solar panels. That could leave the solar sectors without a reliable safe haven in coming months.

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