



Can First Solar Keep Up With the Chinese?

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TEMPE, Ariz. ([TheStreet](#)) -- Last week, solar industry bellwether **First Solar** ([FSLR Quote](#)) held a meeting with analysts and investors at the Westin New York during which First Solar management presented its spin on growth for 2010.

Not all investors were privy to the live meeting, however. In fact, one notable hedge fund [bear on First Solar stock was barred entry](#) from the First Solar event.

Other analysts who maintain a negative outlook on First Solar stock were also reportedly singled out by First Solar management for abuse during the New York presentation. Analysts including Mark Bachman of **Pacific Crest Securities** have [been disappointed by First Solar's overall direction](#), and after the meeting with First Solar management, Bachman was still ambivalent about First Solar stock.

The tension between First Solar management and the investment community illustrates how important First Solar is as a stock-market indicator of the solar industry, and also, how many questions there are about First Solar in the face of the continued rise of Chinese solar players. First Solar is the biggest, and among the oldest, of the solar market players. It has been a long while since its stock was above \$300 in the most exuberant moments of solar delirium, but more recently First Solar has been on the comeback trail from a low under \$120.

Still, the threat to First Solar from the Chinese competitors like **Trina Solar** ([TSL Quote](#)), **Yingli Green Energy** ([YGE Quote](#)) and **Suntech Power** ([STP Quote](#)), who all operate vertically integrated solar businesses like First Solar, isn't going away any time soon.

And thus the battle lines are drawn: It is First Solar and its thin-film expertise vs. the Chinese solar players in the polysilicon market. First Solar's thin film technology has allowed the company to generate gross margins above 50%. However, a polysilicon price plummet in 2009 allowed the Chinese solar players to increase their existing cost advantage.

The combination of the Chinese solar players' cost advantage and the reduction in the raw-materials prices led to First Solar offering additional rebates on its products in 2009 to remain competitive with the Chinese assault on the solar market. First Solar's rebate program brought gross margins under the 50% target to which many investors had become accustomed, but did it sound the death knell for the solar industry's bellwether stock?

In other words, is First Solar a dinosaur on its way to extinction in the still-embryonic era of alternative energy? The hedge-fund manager barred from the First Solar New York event thinks so. Andrew Kaplan, of **Harvest Capital Strategies**, believes that First Solar's cost advantage has disappeared at such a rapid rate that by the middle of 2010, First Solar will have no cost advantage. On the other hand, Pacific Crest's Bachman said after the New York meeting with First Solar management that the stock was neither a sell or a buy, but a wait-and-see at this point.

Other analysts point out that while the threat to First Solar margins from the Chinese solar companies is not going away, First Solar's total all-in costs are still less than its production costs. First Solar should still generate

profits in the long-term -- just maybe not at the outsized level expected by some technology investors. Also, market players as big as **General Electric**([GE Quote](#)) are betting on the future of thin-film technology, so it's hard to imagine the Chinese polysilicon players erasing any and all thin-film players from the solar map. And polysilicon prices seem to have stabilized heading into 2010, so have the Chinese solar players reached a point at which they've maximized all possible advantages, save short-term currency fluctuations?

Of course, in the short term, First Solar also has to worry about the feed-in tariff reductions in Germany -- where it, among other solar players, has a large ground-based business. And while First Solar announced this Monday a deal for a plant in France with French energy monopoly **EDF**, the German market remains by far the largest market in Europe.

Thus, as First Solar heads into 2010, we ask the question: Does First Solar face larger headwinds emanating from China, or a thin-film tailwind that will continue to allow First Solar to outperform many peers in the solar sector?

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What will be the fate of First Solar in 2010 and beyond?

- First Solar will outperform the Chinese solar players in 2010.
- The Chinese players will make bigger gains against First Solar in 2010.
- First Solar won't have its best year in 2010, but will still generate healthy profits.
- First Solar will perform even worse than expected in 2010.
- U.S. and European solar companies won't even exist in five years.

RESULTS

-- Reported by Eric Rosenbaum in New York.

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