One of the Best Ways to Trade the Solar Boom

After one of the worst years on record, solar stocks are back in a big way.

And smart investors are taking notice.

Months after dealing with falling panel prices, obscene bankruptcies, the failure of SunEdison, the possibility that Chinese demand could fall further, no real urgency to build new projects in the U.S., and on and on, the sector is on fire.

In fact, since May 2017, “left for dead” solar trades like the TAN ETF are up 29%. First Solar has exploded 72%. SunPower is up 76%. And there’s good reason to believe solar stocks are still greatly undervalued, even after the run.

At least that’s what the smart money believes.

The Solar POTUS Effect

The initial pop in solar was driven by President Donald Trump’s mention of the border wall along Mexico covered with solar panels. Reportedly, he envisions building a 40- to 50-foot wall that would run along 1,000 miles of the U.S. southern border with Mexico.

According to Elemental Energy, as mentioned by Business Insider, that could generate an incredible 7.28 gigawatt-hours (GWh) of electricity each and every day.

That's enough to power 220,000 homes in a single year.

The Sun is Shining on Solar

Better yet, the extension of the solar credit is expected to lead to sustained growth in the U.S. solar industry. By 2020, the industry is expected to have deployed more than 20 gigawatts (GW) of solar capacity per year, and employ more than 420,000 employees.

Plus, as 2017 moves along, installations have been better than expected, too.

GTM Research predicts that installation could balloon from 85.4 GW in 2017 to more than 110.1 GW over the next five years. In short, it's becoming tougher to argue against the future for most of the solar industry, especially with many new tax incentives and mandatory renewable energy targets. Australia, for example, has a mandatory target of 20% for renewable energy.

Even raised earnings forecasts throughout the solar industry have forced bulls out of hiding.

First Solar for instance just increased its revenue expectations from between $2.85 billion to $2.95 billion to $3 billion to $3.10 billion. The Street was only expecting $2.9 billion. The company also expects for EPS to balloon from $2 to $2.50, as compared to previous guidance of just 25 cents to 50 cents.

EPS for the second quarter of 2017 was 64 cents. That was well ahead of expectations for just four cents for the quarter. Quarterly revenue was $623.33 million. While it was a drop from $1.02 year over year, it also beat expectations for $571.5 million.

So how do we trade the boom? There are two ways.

One way is to buy into the Guggenheim Solar ETF (TAN), which gives us exposure to a good deal of exciting solar stocks. A second way to trade companies that operate behind the scenes, too, such as a solar inverter stock like SolarEdge (SEDG).

Why Solar Inverters are Important

We already know that solar power is clean, safe and reliable because photovoltaic (PV) panels have the ability to harness the sun's renewable energy without generating any emissions along the way. We also know that each panel is made up of small groups of semiconductors that react to sunlight by freeing electrons.

Those electrons then travel through an electrical circuit, converting sunlight into direct current (DC) electricity. Unfortunately, DC can't be used to power anything until the current has passed through inverters. An inverter then helps to convert that DC voltage into an alternating current (AC), which can help people use or meet energy needs.

That's part of the reason we like **SolarEdge Technologies (SEDG).**

The company designs, develops, and sells direct current optimized inverter systems for solar photovoltaic installations in Israel, Europe, the United States. Its DC optimized inverter systems include power optimizers, inverters, and cloud-based monitoring software.

Its products are used in a range of solar market segments, including residential, commercial, and small utility-scale solar installations. The company sells its products directly to solar installers, as well as engineering, procurement, and construction firms; and indirectly to solar installers through distributors and electrical equipment wholesalers.

Better yet, the company is growing quickly.

Revenue was up 9% in its most recent quarter to $136.1 million. Net income skyrocketed 59% to $22.5 million. Non-GAAP net income was up 30% to $22.5 million, or 55 cents – well above the 36 cents analysts had anticipated. Company management also noted that growth in international markets drove most of those positive results. Looking forward, the company expects revenue of between $155 million and $165 million, with gross margins of 33% to 35%.

In my opinion, SEDG has quite the edge in its market, and the cash to improve and diversify its innovative efforts for some time. Even its move into EV chargers is setting the company up for a bright future. Market share appears to be secure.

Looking at the chart, you can see that SEDG has been rebounding sharply in 2017. Much of the downside came courtesy of headwinds in the overall space. But as things began to improve, SEDG refilled much of the gap produced since May 2016.

There are two ways to trade SEDG here.

One, we can buy the stock and allow it to run. Two, we can also pick up the January 2018 27 calls at market prices, or even the December 2017 27 calls.