



More Insights on the Westport-Cummins Joint Venture, and Why Natural Gas in China Is Looking Up

Description

Westport Innovations ([Nasdaq: WPRT](#))(TSX:WPT) CFO Bill Larkin recently sat down with The Motley Fool's Brendan Byrnes for a wide-ranging conversation about Westport's business.

In the following clip, Larkin discusses Westport's joint venture with **Cummins** ([NYSE: CMI](#)) and why that joint venture is focused squarely on North America, as well as the potential of natural gas in China. (Run time: 2:40; a transcript is provided below. If you'd like to view the entire interview, [click here](#).)

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Brendan Byrnes: Cummins-Westport, 65% decrease in international volumes last quarter. I know a lot of that was due to a big bus shipment that you had the year before. Is that something that alarmed you? Is that something you were expecting? What can we expect in the next few quarters going forward, with international volumes and your JV with Cummins?

Bill Larkin: If you look at the amended joint venture agreement that we did, one of the key amendments in there was to focus the joint venture on the North American market. That's what's important. That's where the growth is, that's where the bulk of its market share is.

International, that's just incremental above and beyond that, but it's not a core strategy for the overall joint venture because when you look outside of North America, the majority of OEMs are vertically integrated so there's not a huge market for it.

If you look at the Asian market, it's extremely competitive over there. The cost of the overall systems are substantially less, and the joint venture just cannot be competitive in those markets so we said, "Let's focus our resources on the North American market because that's where we can realize the growth."

Brendan: Weichai had triple-digit growth again last quarter. With natural gas prices higher in China than they are in the United States, why are we seeing such growth there?

Bill: There's a couple of factors. Number one, it kind of helps when the Chinese government says, "You will use natural gas as transportation fuel."

Brendan: Sure.

Bill: That's one of the biggest drivers, but also you have to look at their energy consumption. They can only import so much oil, and we're starting to see a greater and greater spread between the energy that they can import from oil, and what their demands are.

Somehow, they've got to fill up that void, and natural gas for transportation is the logical solution.

Very similar to what we saw in North America, up until recently — a couple years ago — they haven't invested a lot of money in exploring for forms of methane, whether it's coalbed methane or other forms. Through recent explorations they're seeing, "We have a lot of methane here that we can use for transportation."

It's an abundant domestic resource that they can tap into.

Brendan: You think that's only going to grow in China, going forward?

Bill: Yes.

Brendan: Exponentially, or what do you think the mix will be?

Bill: I think ... in the foreseeable future we will continue to see significant growth. Is it 100%, 200%? Only time will tell.

It is still heavily driven by the direction provided by the Chinese government.

For previous episodes in our interview with Bill Larkin:

- [Digging Deeper Into Westport Innovations' Key Joint Ventures](#)
- [Straight From the CFO: Understanding Westport Innovations' Segments](#)
- [Westport Innovations: From Science Project to Industry Leader](#)

Disclosure: The Motley Fool owns shares of Cummins and Westport Innovations.

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