



## Is Westport Innovations Too Weak to Outperform?

### Description

It's been a rough year for investors in **Westport Innovations** (TSX:WPT)([NASDAQ:WPRT](#)). The stock has fallen 30% for those owning its Canadian shares, while those like me who hold U.S. traded shares are down more than 37% on the year.

In both cases, Westport has vastly underperformed market indexes. This isn't the outcome investors expected when buying the stock of a company that should be benefiting from the increase in vehicles fueled by natural gas engines.

Clearly, Westport had more weaknesses than investors realized. Let's take a closer look at two of these concerns and consider if these are too much for the company to overcome.

### Winding road to profitability

In each of the past four quarters, Westport has missed average analyst earnings estimates by more than 10%. In each case the company reported a much wider loss than analysts expected. On top of that the company just isn't growing sales or margins as fast as investors would like. Over the past nine months, sales are actually down 4% compared to the same period in 2012, while gross margins are off by 18%.

Those results aside, the company saw 2013 as a transition year. It's shifting from market creation to full commercial operations and profitability. At its current pace the company doesn't see true profitability being reached until the end of 2015. Given its lumpy results, investors remain skeptical that it can reach that goal.

However, the story remains compelling. According to **Clean Energy Fuels** ([NASDAQ:CLNE](#)) there are 3.2 million Class 8 Trucks in the U.S., but just 1,700 of them are fueled by natural gas. Clean Energy Fuels believes that by 2017 35% of all new Class 8 Trucks could be equipped for natural gas, up from just 0.8% last year. That is just one of the many massive market opportunities that Westport Innovations is in the position to capture over the next few years.

### Conversion issues

While lumpy sales and lack of profits can be overcome, one other glaring weakness is found at

Westport's conversion business. Just this month the company announced that it was moving its light-duty natural gas conversion business to Dallas and that it would cease making conversions at two of its facilities, one of which just opened in June of 2012. As part of this move the company laid off a number of employees.

The conversion business, which the company acquired from Clean Energy Fuels last year is a key to growing the use of natural gas in fleet vehicles. This business gave the company a key relationship to **Ford** ([NYSE:F](#)), which added Westport to Ford's Qualified Vehicle Modifier (QVM) program. The worry here is that customers are choosing to use one of Ford's other QVMs instead of Westport — a big problem given that Ford's popular F-150 can now be optionally equipped to run on natural gas. If Westport is losing business here, it could harm the company's ability to become the leader in natural gas for vehicles.

### **Foolish bottom line**

Clearly, Westport has some work to do. While the company is in the right place at the right time, it is not yet getting the desired results. While I don't think the company is too weak to overcome these obstacles, it needs to show real sustainable growth before its stock can start to outperform. That said, patient investors who believe in the story shouldn't go anywhere just yet as we're still in the early chapters of the natural gas revolution.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. NASDAQ:CLNE (Clean Energy Fuels Corp.)
2. NASDAQ:WPRT (Westport Fuel Systems Inc.)
3. NYSE:F (Ford Motor Company)

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