



Is Westport Innovations Inc. Stock About to Hit \$25?

Description

Westport Innovations (TSX:WPT)([NASDAQ:WPRT](#)) investors were in for a pleasant surprise last week when FBR Capital initiated coverage on the stock with its top “outperform” rating and a price target of U.S. \$25 a share. Hold your breath — that represents a nearly 50% upside from the stock’s Friday’s close.

What’s notable is that FBR has a timeframe of 12 months for the target, which means it projects 2014 to be an outstanding year for the stock, given that it lost 31% in 2013. But what is FBR so excited about, and could it signal a reversal for Westport stock, given that it has lost nearly 15% year to date?

What is FBR Capital betting on?

Analyst Aditya Satghare projects Westport Innovations to “undergo a business model transformation over the next three to five years and to evolve into a specialized natural gas fuel systems provider with technological expertise and select manufacturing partnerships.” Westport is already the leading innovator in natural-gas engine technology, has long-standing joint ventures with companies like top engine maker **Cummins**, and counts **Ford** ([NYSE:F](#)), **General Motors**, and **Caterpillar** among its partners.

More notably, FBR stressed on three strengths that should help Westport profit as the adoption of natural gas as a fuel gathers steam – “increasing R&D efficiency, management’s focus on cost control, and new partnerships for the HPDI 2.0 product and high-horsepower applications”. The last one, in particular, could hold the key to Westport’s growth in the future.

Moving toward profitability

Having already established itself as an expert in natural-gas engine technology, Westport is now [moving out of](#) the research and development phase towards commercial production and sales. That’s a key milestone for two reasons – it should help the company convert its incremental revenue into profits (Westport has yet to turn a profit) while lowering costs, since R&D expenses currently account for a substantial portion of Westport’s total costs.

Westport hopes to turn cash-flow positive this year, which is great news for investors. And with the

company having recently released its HPDI 2.0 platform, the opportunities may have just grown bigger.

The breakthrough

According to Westport, engines built with its HPDI 2.0, or second-generation high pressure direct injection technology, can match the performance and fuel efficiency of diesel engines at lower costs. Westport's first-generation HPDI systems have already found its way into big brands like **Paccar's** ([Nasdaq:PCAR](#)) Peterbilt and Kenworth trucks.

Given that PACCAR dominates the natural-gas heavy-duty truck market in the U.S. (with 40% share) and is among the frontrunners in adopting Cummins-Westport engines, I wouldn't be surprised if it puts its weight behind HPDI 2.0. Westport expects deliveries under the new technology to start by the end of this year.

Big launches lined up

2014 is a critical year for Westport for several reasons. Key product launches include Volvo's 13-liter HPDI-powered engine, and Ford's F-150 pickups fitted with Westport's WiNG power system, which enables a truck to run on gasoline if it runs out of compressed natural gas. Given that Ford's F-series has been America's best-selling truck for more than three decades, and that F-150 is among the auto giant's most important vehicles, it's a huge opportunity for Westport.

What's more, Westport will also launch its first-ever HPDI product in China this year — a 12-liter engine built in partnership with Weichai Power. Consider this — Weichai is China's largest diesel engine maker, and International Energy Agency projects the demand for natural gas in China's transportation sector to treble by 2035. Clearly, there's huge growth potential, and the Weichai-Westport venture is already growing at torrid pace — revenue from the venture grew from just \$9.9 million in 2008 to nearly \$400 million in 2013.

Don't ignore this

While Satghare is right to be optimistic about Westport's on-road opportunities, the often-overlooked off-road market — which covers major areas such as mining, rail, marine, and gas exploration — could be a [potential game-changer](#) for the company.

Westport made huge headway in 2012 when it joined hands with Caterpillar to co-develop HPDI-based fuel systems for various off-road applications including locomotives, mining trucks, and electric-power equipment. Development is underway, and commercial production is expected to kick off in 2017. So expect key updates along the way.

So will Westport hit \$25?

Westport projects 4% to 5% of the new trucks in the U.S. and Canada to run on natural gas this year, compared to less than 1% penetration in 2012. That astounding growth may even be achievable, going by the recent rush by big and small fleet operators alike to switch to natural gas. For Westport Innovations, it's a win-win situation.

Whether Westport shares will hit FBR Capital's price target this year is anyone's guess, but considering that the stock is trading at less than half its 52-week high, the downside risk appears limited, while upside potential [looks great](#). This is one stock investors should have on their radar.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:PCAR (PACCAR Inc)
2. NASDAQ:WPRT (Westport Fuel Systems Inc.)
3. NYSE:F (Ford Motor Company)

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