



5 Big Reasons the Market is Overreacting to Westport Innovations Inc.'s Earnings Report

Description

Westport Innovations (TSX:WPT)([NASDAQ:WPRT](#)) stock crashed in after-market trade yesterday after the company missed estimates on its fourth-quarter numbers as well as guidance for 2014.

Of course, wider losses from a company that's yet to turn a profit can spook investors, but it always pays to look beyond the headlines and find out whether the company is really facing trouble, or analysts were simply getting too optimistic too soon. In Westport's case, the pros in its fourth-quarter earnings report far outweighed the cons. Take a look.

Higher losses, but lower costs

Westport reported 32% higher revenue for the fourth quarter, but its net losses more than doubled to \$89.5 million. That looks terrible at face value, but investors should have worried had higher costs dented the company's bottom line.

On the contrary, Westport is actually cutting costs, as evidenced by the substantial 36% year-over-year drop in its selling, general and administrative expenses for Q4. Management is clearly focused on reducing operating costs while increasing revenue, which should help the company move quickly towards profitability.

So why did Westport's losses widen?

The real story behind those losses

Larger losses were primarily because of one-time items, including expenses related to its upgradation from the older high pressure direct injection, or HPDI technology to the second-generation platform, and consolidation of some facilities that will eventually help reduce costs and improve efficiency.

I had talked in details about critical Westport's HPDI 2.0 technology is for the company in [a recent article](#). Westport unveiled the system during the last quarter, while shipping out its last first-generation HPDI products. That transition, together with provision to support existing HPDI customers, resulted in additional charges of \$67.8 million in Q4. So considering that those expenses were in context of a

technology that's going to define Westport's future, investors shouldn't be worried.

Westport also incurred some additional charges for consolidating four WiNG Power System facilities into one location at Dallas, Texas. The technology is especially used for **Ford's** ([NYSE:F](#)) F-series pickups, which has emerged as one of Westport's most promising businesses. Westport even expects its Ford WiNG business to turn profitable (on operating basis) this year, backed by higher revenue as well as lower costs. The launch of Ford's hot-selling F-150 pickup with the WiNG system this year could play a key role in driving the business forward.

Increasing demand

Westport's joint venture with **Cummins** ([NYSE:CMI](#)) continues to grow rapidly. The venture had a record fourth quarter, with shipments nearly trebling year over year to 3,876 units. Westport is betting heavily on the 12-liter ISX 12G engines that Cummins-Westport launched last year. The engine is one of the key drivers that encouraged Westport to project the share of natural gas fuel in the North American heavy-duty truck market to climb to 3% to 5% this year, compared to near nothing in 2011. With the Cummins venture performing so well, Westport has a lot to look forward to.

A giant leap

Westport's fourth quarter was significant for more reasons than one. Aside from unveiling the critical HPDI 2.0 system, the company also started shipping products under its iCE PACK on-board cold LNG Tank System for trucks and LNG tender for rail locomotives during the quarter. The latter, in particular, could give Westport a major headway into the off-road market, which [holds tremendous](#) growth potential.

Don't fear a lower outlook

The market wasn't happy that Westport projected revenue for the full year to grow between 7% and 13% in 2014, but investors should also understand that HPDI 1.0 alone contributed nearly 15%, or \$25 million, to Westport's total revenue last year. Since the system has been discontinued, and shipments under HPDI 2.0 are still months away, some amount of revenue loss is inevitable.

Foolish bottom line

The good news is that despite lower fourth-quarter profits, Westport re-iterated its projections of turning cash-flow positive by the end of this year. That should keep investors hopeful, and they shouldn't read much into one weak quarter.

CATEGORY

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

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Date

2025/08/18
Date Created
2014/02/27
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