



Westport Innovations Inc. Surged 17% Last Week; Where Is it Headed?

Description

Westport Innovations (TSX:WPT)([NASDAQ:WPRT](#)) shares crashed 15% in the two months through February, but it took them just a week to recoup all those losses and more. Westport took the market by surprise when the stock zoomed a whopping 17% last week. Interestingly, there was no major news to justify the frantic buying activity in the stock. So what's going on?

The deal that counts

Just as the market opened for trade last Monday, Westport [announced a deal](#) with **Delphi Automotive** (NYSE:DLPH) to co-develop natural gas fuel injectors under Westport's newly launched second-generation high pressure direct injection, or HPDI 2.0 technology. The deal is important for several reasons:

- Delphi ranks among the top-five auto parts supplier in the U.S. by sales, and derived nearly 42% and 18% of its sales in 2012 from Europe and Asia, respectively. Naturally, collaboration with such a big company could help Westport spread its wings faster.
- The injectors can be used across multiple heavy-duty engine platforms, including trains and trucks, which could give the company huge headway into several key end markets.
- According to Westport, the new injector will cost "significantly" less than its current injectors under the first-generation (recently discontinued) HPDI platform. That could help boost demand significantly.
- Delphi and Westport plan to build production capacity exceeding 100,000 injectors by 2017, which sounds like a big number.

Undoubtedly, Westport's deal with Delphi is a big one. But the question is: Was it big enough to set the stock on fire? I don't think so.

Pent-up excitement?

It looks like the optimism spilled over from the end of February when the company announced its fourth-quarter and full-year numbers. The stock initially tumbled post-results, but the market soon decided to [look beyond the headlines](#).

Westport's Q4 revenue shot up 32% year over year. Though its losses doubled to \$89.5 million, it was on the back of one-time expenses pertaining to its upgrade from HPDI 1.0 to the HPDI 2.0 platform and consolidation of some facilities as a cost-reduction initiative. In fact, the company reduced its Q4 administrative costs by an impressive 36% year over year. In other words, it was a great quarter, and I think investors were right to send the shares up soon after.

Positive news pouring in

Around the same time as Westport reported numbers, **Clean Energy Fuels** ([NASDAQ:CLNE](#)), the company that has taken the lead in building out natural-gas fueling stations in the U.S., also reported its Q4 earnings. Clean Energy delivered 13% more gallons of natural gas during its last quarter, indicating an uptick in demand. In December, the company reported a staggering 70% jump in third-quarter orders for its natural gas vehicles year over year.

More importantly, Clean Energy projects orders for the 12-liter engine, ISX 12G that Westport and **Cummins** ([NYSE: CMI](#)) have built together to exceed 10,000 units this year. That would mean a more than four-fold increase over last year. Consider that the Westport-Cummins joint venture reported a record fourth quarter, with shipments nearly tripling year over year, backed largely by higher orders for the ISX 12G engines.

Clean Energy's projections hold water, considering that it runs marketing programs with Westport through which the latter provides fuel credits as incentives on its products that are fulfilled by Clean Energy.

Foolish bottom line

Critics may argue that the pace of adoption of natural gas as a fuel still remains painfully slow, but 2013 was witness to several big and small fleet operators ordering a greater number of natural-gas vehicles.

And let's not forget President Obama's recently announced plans to develop new fuel-economy standards for medium- and heavy-duty trucks within the next couple of years. Considering that natural gas is a cleaner fuel, more fleet operators could switch to gas-powered vehicles in the near future, which bodes well for Westport.

Westport is clearly [in a business](#) that has huge potential. For long-haul investors, these daily meanderings in stock prices may just feel like a blip on the radar some years down the line.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:CLNE (Clean Energy Fuels Corp.)
2. NASDAQ:WPRT (Westport Fuel Systems Inc.)
3. NYSE:CMI (Cummins Inc.)

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Date

2025/07/21

Date Created

2014/03/10

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