



What's Next for Ballard Power?

Description

Yesterday was [a day of carnage](#) for **Ballard Power** (TSX: BLD)(NASDAQ:BLPD). The stock price decreased a shocking 23% to close at \$4.60. Why did the stock tank and what should investors expect in the months to come?

Essentially, Ballard's shares got hit in tandem with **Plug Power** ([NASDAQ: PLUG](#)) yesterday. It turns out that an order that Plug Power's CEO discussed in a report earlier this week that the market thought was a new order was not a new order after all, but one that was already disclosed at the beginning of March.

So after rising 49% on Tuesday, Plug Power tumbled almost 24% yesterday. Plug Power and Ballard have been trading alongside each other recently, and today was no different. Also, given the run-up that Ballard has had, the stock had gotten ahead of itself and was trading on speculation rather than on fundamentals, so a pullback was not unexpected.

“Irrational exuberance”

“Concept” stocks — stocks of companies with very promising technology that can potentially be a game changer — have often been subject to the wild volatility that comes with unabashed anticipation and excitement on the one hand and desperate doom and fear on the other.

Over the last two months, Ballard has definitely fallen into this category. The company has potentially game-changing technology that has once again been the subject of intense excitement. Recall that back in the early 2000s, the company's fuel cell technology also caused intense excitement and the stock made and lost a lot of fortunes before it went bust.

Back to fundamentals

Switching gears to the fundamentals of the company, when I first wrote about Ballard Power in January, [the stock was intriguing](#) to me based on the fact that it was showing good signs of progress financially, technologically, and strategically. Let's review where the company stands on all these fronts.

Financially, Ballard has achieved a significant increase in gross margins for the quarter and the year as a whole. This was driven by a shift in the revenue make-up toward higher margin products, as well as a 7% reduction in cash costs. Adjusted EBITDA in the fourth quarter was \$200,000, a huge improvement from last year's fourth quarter loss of \$3.2 million. For the year, EBITDA improved by 62% to a loss of \$8.2 million from a loss of \$22.1 million in 2012.

Technologically, fuel cells are definitely gaining market acceptance, as evidenced by Plug Power's deals with **Walmart**, which ordered 38 new GenDrive systems to be delivered over the next two years, and with Volkswagen, which signed an engineering services contract to advance its fuel cell automotive research program. There is also growing global demand from the telecom industry. As for Ballard, it is also gaining new customers and experiencing robust demand for its products.

Strategically, Ballard has lowered its risk profile by diversifying its revenue base. Ballard's sources of revenue now span from telecom backup power, to power generation, to busses, to engineering services. The automotive market is no longer the only use for its technology.

Foolish bottom line

It can be difficult for investors to focus on fundamentals when the market is trading a stock based on speculation, irrational optimism, and fear. But even after today's fall, Ballard is still up 147% year-to-date, and while that is fabulous for those who have gone along for the ride, it would be wise for those investors who are considering investing at this point to tread carefully.

The stock has broken through its moving averages to the downside, which would suggest that there will be a better entry point. Fundamentally, I still like what is happening at the company, and think that its future looks very promising as it will likely continue to make progress in advancing the usage and market acceptance of its fuel cell technology.

CATEGORY

1. Investing

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1. NASDAQ:BLDP (Ballard Power Systems Inc.)
2. NASDAQ:PLUG (Plug Power Inc.)

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