



## Will Investors Ever See a Turnaround in Westport's Stock?

### Description

With **Westport Innovations** (TSX: WPT)([NASDAQ:WPRT](#)) stock continuing to fall, many investors are wondering if and when any type of turnaround could occur. I mentioned the stock earlier this week when it [fell to \\$14.27](#). It seems that as the week has progressed the decline was not over, as the stock slid again this time down to a low point of \$13.67 before closing Tuesday at \$14.08.

The potential this stock carries is very tempting to investors. It offers an alternative to conventional fuels and because it is in a country with newly realized natural gas reserves, the expectation of growth is palatable. But as the past 12 months have progressed the investor camps of “possibilities” and “realities” have begun to clash. Is the LNG market destined to the same fate as the hydrogen fuel cell market, or are these just the birth pains of an emerging technology?

### Bison Transport's lackluster review

Fourteen months ago, Winnipeg-based Bison Trucking took its first steps into the natural gas engine market by converting 15 of its 1,250 trucks to a first generation 15L GX engine platform built by Westport. This was a test for Westport and the entire industry to see how well its products could cope and be assimilated into a trucking fleet

Now just over a year has passed with Bison's test vehicles and the results were not overly encouraging. Using Westport's first generation dedicated natural gas engine Bison was projecting a 10% drop in miles per unit (compared to diesel). This was acceptable due to the lower cost of LNG. However the results were closer to 18% fewer miles per unit.

Bison also reported that maintenance costs on the LNG engines were double that of a diesel engine. It should be noted that Bison did not convert its own shops for the trial and all maintenance was done externally at higher costs.

Bison originally planned to break even on the trucks after two years, but due to these results it now expects it to take four years, and the vehicles each cost \$75,000 more than conventional trucks.

## Shell throws in the towel on LNG

Not only was the trial run at Bison a test for Westport but it was also a chance for **Shell** (NYSE: RDS.B) to experiment in the commercial LNG market. Shell committed to develop three LNG fueling stations in Calgary, Red Deer, and Edmonton to service Bison, its primary LNG customer. There were also plans in place to build a 300,000 tonne per year liquefaction plant in Calgary, along with one in Sarnia, Ontario, and Geismar, Louisiana. At a total cost of \$1 billion this infrastructure investment would also include over 100 fueling stations in North America.

It seems though that the rocky start Bison has experienced has also put the brakes on Shell's plans as it announced last month that it would cancel the liquefaction plant in Calgary and put the other two facilities on hold. Shell stated that the plants in Sarnia and Geismar could be restarted if there is an increased demand for LNG-powered marine vessels

## Unveiling the next generation of engines

Bison is currently using 15 of Westport's 15L GX dedicated natural engines; these engines are Westport's first generation of engines, which were discontinued in January. Now Westport is offering its new HPDI 2.0 engine series. Unlike its predecessor, this is a hybrid engine running 90% natural gas and 10% diesel, but is capable of running on 100% diesel. It also operates on both CNG and LNG allowing from more options to fuel up.

Westport has taken the criticisms and limitations of its first generation of engines and is now selling a more versatile engine with better operating costs, and is labeled to be 15%-20% more efficient (highway) than the first generation engine.

Westport is banking heavily on this second generation engine system, and the research and development of this system dragged the company into the red last year.

## Management expectations

Westport CFO Bill Larking has called the state of the stock "frustrating", and commented that investors are taking a negative approach to the stock due mainly in part to the rising price of natural gas, but that the long term benefits outweigh the initial costs.

Westport founder and CEO David Demers called 2014 a "critical breakthrough year in heavy-duty trucks in North America." This statement is followed up by management expectations to be back in the black by the end of 2015, reaching that goal through its newest generation of engine systems.

## Foolish bottom line

Analysts are torn on this stock with "buy", "hold" and "sell" recommendations varying back and forth. One fact that everyone agrees on is the much slower than expected rate the market is growing in North America.

Compared to some South Asian countries where natural gas stations are as common as gas stations, the infrastructure in Canada continues to be lacking. This is a serious issue for Westport as 42% of its sales derive from North America, the decision to abandon dedicated LNG engines in favor of its new HPDI 2.0 hybrid engines could give the company an edge until the infrastructure is realized.

CATEGORY

- 1. Investing

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- 1. NASDAQ:WPRT (Westport Fuel Systems Inc.)

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