



Will Westport Innovations Inc. Finally Turn Around This Week?

Description

Fasten your seat belts, **Westport Innovations** (TSX: WPT)([NASDAQ: WPRT](#)) investors. The company is set to release its much-awaited first-quarter numbers this Thursday. This earnings report should give you the first evidence of whether the company is finally on the road to profits.

But unlike in the fourth quarter, will Westport surprise investors this week and provide its languishing stock a much-needed breather?

Forget the losses, and watch this metric

Analysts see Westport's Q1 revenue jumping 37% year over year. More notably, they expect the company's loss to shrink nearly 28% to U.S. \$0.41 a share. But you may want to shift focus from net loss to another metric this week.

Westport hopes to steer its three operating business units to positive adjusted EBITDA by the end of this year. To give you a clearer picture, the three units include Applied Technologies, On-Road Systems, and Off-Road Systems; and the units combined incurred negative adjusted EBITDA of about \$9 million in *each* of the past four quarters. Furthermore, adjusted EBITDA means net income (loss) excluding expenses like interest, tax, depreciation, amortization, forex gains or losses, and other non-cash items.

So if Westport wants its units to generate positive adjusted EBITDA by the end of 2014, it must start showing signs of recovery from the first quarter itself. Remember that the company could still incur big net losses in Q1, since it continues to incur huge expenditures on capital investments that also go into its bottom line. So do not read much into Westport's net losses for now. Instead, look out for how it is curbing costs and improving its adjusted EBITDA numbers in its upcoming earnings report.

Are Westport's plans working?

While its top and bottom line numbers will grab headlines when Westport reports this week, investors should pay greater attention to the company's ongoing growth plans and how things are shaping up in its key end markets.

For instance, Westport's joint venture with **Cummins** ([NYSE: CMI](#)), which is also its most profitable

venture, had a record fourth quarter with shipments nearly trebling year over year, driven largely by orders for the newly launched 12-liter ISX 12G engines. If the trend continues into the first quarter, it should signal good response to the engine. That should be great news, considering that Westport is [betting heavily on the](#) ISX 12G to gain traction in the critical heavy-duty truck market in the U.S.

Watch for details on the big opportunity

Westport also projects 2014 to be its “breakthrough year in China.” Shipments under its joint venture with China-based Weichai Power surged 73% last year, signaling strong demand for natural-gas engines from the nation. Westport has just launched its next generation high pressure direct injection technology on the Weichai Westport engine platform. HPDI 2.0 is touted as Westport’s [biggest technology until now](#), and China one of its biggest growth markets. So watch for more details in Westport’s upcoming earnings call.

On that note, I’d also like to point out something important – Since HPDI 1.0 contributed nearly 15% to Westport’s total revenue in 2013, and the company discontinued the system during its fourth quarter, its revenue may remain under pressure for some time. Keep that in mind when the company reports numbers this week.

Foolish bottom line

Westport stock is trading at its 52-week low for several weeks, and a good set of numbers on Thursday could signal its much-awaited turnaround. Until then, don’t miss Cummins’ and **Paccar’s** ([Nasdaq: PCAR](#)) earnings reports scheduled for release tomorrow. Westport’s fortunes are [closely tied to these](#) two companies, so stay cautious.

CATEGORY

1. Investing

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2. NASDAQ:WPRT (Westport Fuel Systems Inc.)
3. NYSE:CMI (Cummins Inc.)

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Date

2025/07/21

Date Created

2014/04/28

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