5 Takeaways From Westport Innovations Inc.'s Massive First Quarter

Description

Whoa! **Westport Innovations** (TSX: WPT)(NASDAQ: WPRT) shares are flying, and how! The stock skyrocketed 20% this morning, as of this writing, on a solid first-quarter report from the company. Finally, investors have something to feel good about.

It wasn't as if Westport's fourth quarter was a bad one – the market simply overlooked what was going right. But investors who paid heed and stayed calm will be thrilled; Westport's first-quarter report had everything an investor would want to see. Here's why.

The growth on top continues
Westport's top line continues to grow at good pace — its Q1 revenue, excluding joint ventures, climbed 39% year over year. Aside from contributions from recent acquisitions such as BAF Technologies, Westport also reported higher sales for its iCE PACK LNG Tank Systems and **Volvo** cars fitted with its bi-fuel systems.

Westport's WiNG Power System, dedicated to **Ford** (NYSE: F) trucks, is also receiving great response from the market. The high-margin product was one of the key factors that drove the company's Q1 gross margin to 29.4% from 26.9% a year ago. The business looks on track to turn profitable (on operating basis) this year, especially with the launch of the system on Ford's hot-seller F-150 pickup.

A step closer to profitability
While a growing top line is great news for investors, the significant improvement in Westport's quarterly adjusted EBITDA stole the spotlight. Adjusted EBITDA means net income (loss) excluding expenses like interest, tax, depreciation, amortization, forex gains or losses, and other non-cash items.

Given that Westport has set its immediate financial goals in adj. EBITDA terms, it's certainly worth noting that it reported an adjusted EBITDA loss of only $1.6 million during the first quarter, compared to near $9 million losses in *each* of the past eight quarters. Westport is clearly pushing itself hard, and as of now, appears to be on track to steer its three operational units to positive adjusted EBITDA by the end of this year. That's great news for investors.

Great cost control

The first quarter also highlighted how Westport's aggressive cost-control initiatives are paying off. It is shutting down five of its facilities and consolidating them, resulting in considerable cost savings. Need evidence? Consider this: Despite the sharp jump in revenue, Westport's selling, general, and administrative expenses *declined* 4% year over year during the quarter.

Cost reduction should play a critical role in driving Westport to profitability. Higher revenue, combined with lower costs, helped the company shrink its Q1 net losses to $23.9 million from $31.8 million in the comparable period last year.

The ISX 12G is hitting the right notes
Engine shipments under Westport's joint venture with **Cummins** (NYSE: CMI), also known as CWI, shot up 89% to 2,480 units in the first quarter. Here's the encouraging part – volumes in North America surged 102%, driven by higher orders for the ISX 12G engines.

Investors were getting jittery when Cummins didn't even bring up the ISX 12G in its recent earnings call. But the response to the engine, which was launched last year and is touted as CWI's most important product till date, is reportedly, and thankfully, meeting Westport's expectations. That's encouraging, especially since Westport is banking on the ISX 12G engines to deepen foothold in the critical U.S. heavy-duty truck market.

China's looking bigger than ever
Westport is also rapidly gaining traction in the Chinese market — Shipments under its joint venture with Weichai Power rose 8% during the first quarter. But what you should note is this: After delivering a little over 38,000 units in 2013, the JV is planning to increase annual capacity to 100,000 engines, underlining the massive potential in the market.

Westport looks set to hit new heights in China, with the launch of its next generation high pressure direct injection technology on the Weichai Westport engine platform. With natural-gas fueling infrastructure way more developed in China than in the U.S., growth in the Middle Kingdom should come easy to Westport. Its first-quarter report just set the pace for that growth.

Foolish bottom line
Westport projects 2014 revenue to improve between 7% and 13% over last year. Investors may have expected a lot more given its strong Q1 top line growth. But Westport, perhaps, prefers to remain on the conservative side. That's nothing to worry, especially after the strong first quarter from the company.

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