



Why Is Westport Innovations Inc. Plunging?

Description

On Thursday afternoon, right after markets closed, **Westport Innovations Inc.** (TSX: WPT)([NASDAQ: WPRT](#)) reported earnings for the second quarter of 2014. Hopes were high ahead of the report, but seem to have been dashed very quickly – as of this writing, the stock has fallen by about 11% in response.

So what's gone wrong? And has the price drop created an opportunity?

The positives

The main positives concern the company's profitability. Its adjusted net loss of \$0.42 was good enough to beat estimates by \$0.02.

The news is even better when looking at adjusted EBITDA, and to establish proper context, one has to go back to October 2013. At the time, CEO David Demers said that Westport's three operating units would be adjusted EBITDA positive by the end of 2014. Fast forward to today, and the company reached that goal in the second quarter, six months ahead of schedule.

So why the drop?

Unfortunately, Westport missed its revenue target, reporting a top line of \$40 million for the quarter. By comparison, the average analyst estimate was close to \$45 million.

Normally earnings are more important than revenue, but Westport is a different story.

Westport is a high-growth company (even with a weak revenue number in the second quarter, sales were up about 15% year-over-year). And as a result, it trades at a very high multiple – over five times revenue. So investors are hoping that Westport's product line will take off, and that when sales are much higher, profitability will follow naturally.

But that is not what happened last quarter. Sales were actually down from the first quarter. Rather, profitability was boosted by cuts in operating expenses like research & development. In fact, if the

company had simply maintained the same R&D budget it had last year, then its adjusted EBITDA would still be negative.

So is this an opportunity?

Unfortunately for Westport's shareholders, this report is the latest in a long string of disappointments for the company. As a result, the shares are down by well over 50% after peaking in the mid-\$40s in early 2012. But make no mistake: the shares are still very expensive.

Westport is valued at roughly \$1 billion by the market, even though it has less than \$200 million in sales. Making matters worse, the company is still unprofitable. And if this weren't bad enough, growth is slowing, and the company is cutting its R&D budget.

So despite the share price declines, you're still better off staying on the sidelines.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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