



Is Westport Innovations Inc. Still Worth the Risk for Investors?

Description

Last week, **Westport Innovations Inc.** (TSX: WPT)([NASDAQ: WPRT](#)) unveiled its second-quarter results to investors with bated breath. It appears to be more of the same from the creator and purveyor of natural gas engines and components. However, revenue did manage to rise to \$40 million in the quarter, up from \$34.9 million during the same period last year.

Despite this, net earnings once again posted a loss of \$35.4 million, or \$0.56 per share, up from \$33.9 million, or \$0.61 per share, in Q2 2013. The company has been trying to display this quarterly report as a win, as its EBITDA including joint ventures finally posted a modest profit of \$1 million, as opposed to a loss of \$1.6 million last year.

Last year Westport posted a year-end loss that it attributed to its research and development division. With the introduction of its newest generation of engine platforms, there was hope that the company would at least flirt with ending in the black. R&D costs remain a top consumer of cash from the company, costing \$18.7 million in the quarter, down from \$23.9 million from last year's quarter.

Joint ventures to the rescue... maybe

Even Westport's two primary joint ventures weren't immune to this poor quarter. Cummins Westport specializes in heavy-duty trucking solutions and saw only a modest growth in revenue — \$79.6 million in the quarter, up from \$78 million. While on paper this looks good, the company actually sold fewer units in the period, dropping to 2,479 units from 2,716. Even gross margins dropped by half compared to Q2 2013, with 13.1% compared to 26.4%. All in all, Westport took a net loss of \$400,000 in its Cummins Westport joint venture, though at least this is an improvement over the \$3.3 million net loss it incurred in last year's quarter. However, Westport is anticipating a 3%-5% increase in Class A truck sales for the year.

The Weichai Westport joint venture, in which Westport has a 35% interest, also had a rough quarter. This is due in part to higher natural gas prices in China. Revenue dropped to \$133 million from \$152 million and total unit sales dropped to 11,071 from 12,410. Gross margins in this joint venture also took a 26% hit due to the costs of growing its presence in China. This is a country that could drastically

change Westport's future if it continues grow its natural gas vehicle market and infrastructure.

A company on the move

The past year and a half has been quite a period of change for the company, when it moved from being an in-house production company to expanding to more OEM partnerships. After spending years as a proof of concept company, Westport has been steadily adapting to be more of a product development and profit growth company.

For investors, though, Westport has been a waiting game. There is so much potential for its technology and its OEM partnerships, and its joint ventures continue gain market share. Yet quarter after quarter of net losses have taken a toll on average investors.

The stock closed Friday at \$17.23. Compare this to its 52-week range of \$13.67 to \$34.23 and it is either a beaten stock or a chance to take a risk. Despite all the frustration and missed expectations, there is still an average price target of \$26.70 for Westport Innovations.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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