



The Pros and Cons of Investing in Westport Innovations Inc.

Description

Shareholders of **Westport Innovations Inc.** (TSX: WPT)([NASDAQ: WPRT](#)) have certainly been on a wild ride. The stock price went from \$4 in late 2008 to over \$40 in early 2012, but has since fallen to below \$16. So with the stock price so depressed, is now the time to pick up some shares at a discount? Or is the stock still too expensive?

Below we take a look at two reasons why you should buy the shares, along with two reasons you should stay away.

Why to buy

1. Still a promising technology

Westport sells technology for natural gas-powered engines and with such cheap natural gas in North America, the economics of switching make sense for many end users. Already industries such as trucking and public transportation are embracing natural gas, and others could follow (such as marine transport and rail). If cars ever used natural gas-powered engines in a big way, then there would be tremendous upside for Westport.

There's been a lot of concern in the last couple of years about the rise in natural gas prices, from less than \$2 to nearly \$4. But even now, on an energy-equivalent basis, gas is far cheaper than oil. So as Westport further develops its technology, the future remains very promising.

2. The cheap price

As mentioned, Westport's share price has gotten hammered in recent years. This does not necessarily mean the stock is now undervalued – after all, the stock could have been overpriced two years ago.

But Westport's experience over the last couple of years does not justify a 50% drop in its share price. This could easily be a situation where too many people (perhaps momentum investors) were selling at the same time. If that is indeed the case, the shares could be a bargain.

Why to stay away

1. Slowing growth

It's clear that Westport's allure is its high growth. After all, the company is still unprofitable, and needs much higher sales to reach scale.

But growth has been hard to come by recently. In 2012 and 2013, revenue growth came in at just 5% each year. And in the most recent quarter, Westport missed sales estimates. On the plus side, the company reported better-than-expected profitability numbers, but this only came from cutting expenses like research and development.

This is not what you want to see from a growth stock.

2. Still an expensive stock

When looking at a stock chart, Westport appears cheap. But when looking at the company's trading multiples, the stock looks a lot more expensive.

To illustrate, the company made just under \$3 per share in revenue last year, yet the stock still trades above \$15 per share. This would be expensive even for a profitable company, but Westport is still recording losses. So there is still plenty of room for the stock to fall.

CATEGORY

1. Investing

TICKERS GLOBAL

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

Category

1. Investing

Date

2025/09/29

Date Created

2014/08/15

Author

bensinclair

default watermark