

Westport Innovations Inc.: Triple Your Money on This Natural Gas Stock

Description

Over the next couple of years you could make triple-digit gains in one of the most beaten-down commodities on Earth.

It won't happen overnight. But as I write, a tremendous opportunity is opening up in a small section of the North American energy industry. And before the run is over, we could see prices double or more.

Let me explain...

As regular Motley Fool Canada readers already know, North America is in the midst of an energy revolution. Thanks to new technologies like horizontal drilling and hydraulic fracturing, industry producers are unlocking vast new quantities of hydrocarbons. In just the past 10 years, America has gone from a major importer of natural gas to the world's largest supplier.

The U.S. is now being called 'the Saudi Arabia of natural gas'. As a consequence, this development has completely remoulded the American energy industry. The supply glut has led to a historic collapse in prices, with natural gas spot rates falling more than 70% over the past six years.

And that picture is unlikely to change any time soon. Looking at the numbers, the U.S. consumed roughly 26 trillion cubic feet, or tcf, of natural gas in 2012. According to the Potential Gas Committee, a non-profit group, the country has an estimated 1,900 tcf of recoverable gas in reserves. That means America is sitting on nearly 70 years of supply.

Low prices are bad news for producers like **Encana Corporation** and **Chesapeake Energy Corporation**. But it's great news for companies like **Westport Innovations Inc.** (TSX: WPT)([NASDAQ: WPRT](#)), which builds natural gas-powered engines.

At current prices, natural gas as a transportation fuel is now 50% cheaper than regular gasoline. This fundamental shift is causing some of America's largest trucking fleets — like **Wal-Mart Stores, Inc.**, **The Coca Cola Company**, and **Waste Management, Inc.** — to switch from using diesel engines to ones that run on natural gas. It could just be a matter of time until every heavy-duty truck in the U.S. is running on this technology.

The difference in price between natural gas and diesel is about \$1.50 per gallon. That might not seem like much. But multiply those savings across the millions of gallons these trucking fleets consume each year, and you start to understand why this transition is unavoidable.

That's great news for Westport because it has a near-monopoly on the natural gas market. The company and its partners have filed over 700 patent applications for natural gas related inventions to date. That means it's almost impossible for a competitor to build a natural gas-powered engine without infringing on at least one of Westport's patents.

For investors, the upside potential is enormous. Westport is still a relatively small company, a fraction

of the size of a global engine manufacture like **Cummins Inc.** And over the next three to five years, the company is projected to grow its earnings at a 30% compounded annual clip.

This forecast is super-conservative if natural gas engines make their way into cars. Westport has signed partnerships with a number of the top automotive manufacturers, including **General Motors Company**, **Ford Motor Company**, and **Toyota Motor Corp.**

As of today, only 130,000 vehicles in the United States run on natural gas. That's less than 0.05% of the 250 million vehicles in the country. If Westport can capture just 1% of this market, the stock could triple from here.

Five years ago, the idea of natural gas vehicles on American roads sounded far-fetched. Today, the economics suggest that we could see a massive roll out over the next five to 10 years.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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