



## Is Westport Innovations Inc. Still Worth the Gamble?

### Description

**Westport Innovations Inc.** (TSX: WPT)([NASDAQ: WPRT](#)) is perhaps both the most interesting and the most frustrating stock on the TSX. With the promise of a world looking away from crude oil and more at natural gas, Westport should be a no-brainer as it designs and develops natural gas engines and technologies, both in-house, via joint ventures with companies like **Cummings**, and through OEM partnerships.

But lackluster earnings and cash-sapping research and development budgets have dragged the stock down to its lowest point since 2009. Just in the past 12 months, the stock has gone from \$26.65 down to \$8.04 and has had more than one IROC trade halt imposed. The question, then, is: Is there life left in this stock or have the good times come to an end?

### More bad news

On Tuesday, Westport announced that it had cut its projected revenues for fiscal 2014, reducing its previous estimates in July from \$175 million to \$130 million. It also announced that it “no longer expects to post positive adjusted EBITDA” this year. Not the best news as Westport has already struggled to post any net earnings in the past 18 months.

Following the announcement, investors began to sound the alarms and a massive stock sell-off ensued, taking the stock from \$11.74 to \$8.52. It could have gone even lower had a trade halt not been initiated.

### Justification for the cuts

Westport attributed three factors to these cuts in projected revenues and earnings. First, uncertainty in Europe, Russia, and China have affected its revenue from its applied technologies segment. Second, several of Westport's OEM customers are switching to its newest generation of engine platforms and will push revenues into next year. Third and finally, Westport has run into a problem with a major customer, as Westport believes that the company will not be able meet "requirements of its contract" — that is, they don't have the cash — so this will push possible revenues from the sale outside of 2014. So, it is not all bad news as this lost revenue should reappear on the books in 2015.

The average price target for Westport is still at \$24.50, but that is quickly changing. RBC Dominion Securities has cut its price target on Westport from \$17 to \$9, and Canaccord Genuity cut its price target from \$17 to \$9.50. Yet some optimism does remain as seven researchers retain ratings on the stock: one hold, three buys, and one sell.

### Hope for the future

A critical problem facing Westport is the lack of natural gas infrastructure here at home, especially since **Shell** announced that it had abandoned its plans to create a natural gas fueling network at its gas stations.

But what it lacks here at home Westport has been able to remedy over in China, thanks to a partnership with Weichai (think of them as the **Magna** of China) and has just received emissions certification for its newest line of heavy-duty engines in China.

Westport has near-unlimited growth potential as several Asian nations have already built up the infrastructure for natural gas fueling stations for the masses. Also, growth in Europe and South America should bolster the books as both regions receive most of their oil from outside their borders but have growing natural gas industries.

So investors may not want to be quick to abandon this company as the long-term possibilities still appear quite appealing.

### CATEGORY

1. Tech Stocks

### TICKERS GLOBAL

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

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