Are Westport Innovations Inc. Shares a Bargain?

Description

On Thursday afternoon, **Westport Innovations Inc.** (TSX: WPT)(NYSE: WPRT) reported earnings for the third quarter of 2014. Revenue of $25.3 million matched expectations, while the earnings per share figure of -$0.40 actually beat estimates by $0.05. The company also reiterated its latest revenue guidance for 2014 of $130 million to $140 million. And Westport still hopes to reach positive Adjusted EBITDA by the end of 2015.

At first glance, it appears that this was a rather uneventful quarter. But revenue only matched expectations because Westport reduced its revenue outlook so dramatically about a month ago. In fact the company was previously hoping for 2014 revenue to fall between $175 million and $185 million.

So it seems like shareholders are getting fed up. The stock is down another 4% on Friday (as of this writing), and down by a whopping 67% this year. So that leaves the all-important question: Are the shares now a bargain?

The bottom line is improving

If there's been one piece of good news for Westport this year, it's been on the cost side. In Q3, research and development expenses were down by more than 25% year over year, and other operational expenses were down 20%. The company has reduced staff, and executives have accepted reduced salaries in lieu of restricted share units. All this has helped the company beat earnings estimates.

… but shrinking revenue is a problem

The real concern is a shrinking top line – Q3 revenue was down 46% year over year. This is an especially big concern for a company like Westport, whose natural gas engine technology is supposed to bring about spectacular growth. This is why the shares are down, even though the company's bottom line was better than expected.

… and headwinds remain

Westport cited four reasons for the revenue decrease, but one in particular stood out: “Competition from gasoline- and diesel-fueled vehicles due to the decrease in petroleum-based fuel pricing.”

In other words, truckers are finding less reason to use natural-gas powered engines when gasoline and diesel are so much cheaper than before. This is a real concern, especially since natural gas-powered trucks are about $50,000 more expensive than diesel-powered equivalents, and are 20% less fuel-efficient, too. Sales of natural gas-powered trucks are still up by 20% over the year before, but previous estimates had been for 100% growth.

So it seems that Westport’s offerings are not gaining traction with customers. Meanwhile, as mentioned, the company is cutting its R&D budget. So this problem may remain for a while.

And the stock is still expensive

Westport is valued at approximately $300 million by the market, about 2.5 times this year’s revenue expectation. This is a very big multiple for most companies. But it’s especially big for a company that is not profitable, has shrinking revenue, and is facing numerous headwinds.

Granted, Westport could turn itself around, and if it did, the stock price could skyrocket. But that is just too unlikely at this point. You should stay on the sidelines.

That being said, there are much better options than Westport. One of them is The Motley Fool’s top stock pick for 2014, and it is revealed in the free report below.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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

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