



Ballard Power: Time to Build a Position?

Description

While **Ballard Power Systems Inc.'s** (TSX: BLD)([NASDAQ: BLDP](#)) stock is up 46% year-to-date, the stock's six-month return is less impressive, at -25%. Why has the stock been so weak lately, and is this a good time for long term investors to take a position and get exposure to the promising future of fuel cells?

Irrational Exuberance

Over the last year, Ballard has definitely fallen into this category once again. The company has potentially game-changing technology that has once again been the subject of intense excitement. Recall that back in the early 2000s, the company's fuel cell technology also caused intense excitement and the stock made and lost a lot of fortunes.

Back to the present, after much excitement earlier this year, Ballard recently had to downgrade growth expectations due to the weaker than expected revenue growth in the telecom backup power segment and the development stage market segment. In fact, management has lowered its guidance for 2014 and is now guiding toward revenue growth of 20% (versus 30% guidance previously) and adjusted EBITDA of -\$3 million (versus prior guidance of break-even adjusted EBITDA). Investors have accordingly sent the stock down.

But does this change the company's promising outlook, or is it just a short-term blip? I believe the latter to be the case. In my view, the long term story here is still promising for the following reasons.

Financial

Financially, Ballard continues to post strong overall revenue growth. Revenue growth in the latest quarter was 21.2%, with the Material Handling segment (17.4% of revenue) reporting the strongest growth, at 70% (+127% year-to-date), and the Development Stage Markets segment (12% of total revenue) reporting the weakest result, with a 43% decline in revenue (-40% year-to-date). The Telecom Backup Power segment posted a 60% increase in revenue (-12% year-to-date) and the Engineering Services segment posted a 26% increase in revenue (+62% year-to-date).

Ballard kept its gross margins steady versus last quarter and cash operating costs declined 15% year over year (mostly due to lower R&D). Adjusted EBITDA was \$451,000, a huge improvement from last year's loss of \$4.6 million. The company has \$32.7 million of cash on its balance sheet and no debt, and a backlog of \$43 million.

Technology

Technologically, fuel cells are definitely gaining market acceptance, as evidenced by Ballard's new long-term supply agreement with **Plug Power Inc.** ([NASDAQ: PLUG](#)) for the supply of fuel cell stacks for use in GenDrive systems that are deployed in forklifts. This agreement runs through to 2017 with an option for two one-year extensions. As a barometer of growth in this market, we can look to Plug Power's 450% increase in shipments to customers such as **BMW**, **Walmart**, and Mercedes. In addition, Volkswagen signed an engineering services contract with Ballard to advance its fuel cell automotive research program, and there is growing global demand from the telecom industry. Ballard is gaining new customers and experiencing robust demand for its products.

Strategic

Lastly, strategically, Ballard has already lowered its risk profile by diversifying its revenue base. Ballard's sources of revenue now span from telecom backup power, to power generation, to buses, to engineering services. In the third quarter of 2014, the company's revenue was segmented into four divisions: Telecom Backup Power, at 20.7% of revenue, Material Handling, at 14.3% of revenue, Engineering Services, at 52.9% of revenue, and Development Stage Markets, at 12.1% of revenue. Fuel cells for the automotive market is no longer the only use for its technology.

Should you buy?

While Ballard has had to reduce expectations going forward, it is still very well positioned to continue to profit from its fuel cell technology in the different segments that it participates in. And as icing on the cake, the company is extremely strong financially, with a balance sheet that gives it the utmost flexibility to withstand challenges and benefit from opportunities.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:BLDP (Ballard Power Systems Inc.)
2. NASDAQ:PLUG (Plug Power Inc.)

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Author

karenjennifer

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