



Why Westport Innovations Inc. Could Keep Plummeting

Description

As the price of oil plummets, energy stocks are of course crashing too. But there's another stock that's falling just as quickly, even though it doesn't produce any oil: **Westport Innovations Inc.** (TSX: WPT)([Nasdaq: WPRT](#)). This is of course just the latest setback for Westport, whose shares are down a shocking 75% in 2014.

That being said, Westport's shares could get a lot cheaper, even though they appear to have hit rock bottom already. Below we take a look why.

What's gone wrong?

Back in 2012, Westport was flying high. The company's natural gas engine technology showed great promise, as natural gas was dirt cheap. The company had grown revenue by 50% over the previous two years. And the stock traded in the mid-\$40s.

Since then, everything has gone wrong. Natural gas prices have rebounded, and oil has plummeted, making the company's technology less attractive. Revenue is now shrinking. And the stock is of course much less attractive – as of this writing, the shares trade below \$5.

Poor economics

That being said, things could get a lot worse. To illustrate why, let's revisit a report by *The Wall Street Journal*.

In late August, the WSJ reported that natural gas engine trucks were not being well-received. Sales were up about 20% over the previous year, but that was about in line with diesel trucks. A year earlier, some prognosticators had predicted these sales would double. Why have they been such a disappointment?

Well, natural gas powered trucks cost about \$50,000 more than diesel trucks. Making matters worse, these trucks are about 20% less fuel-efficient than diesel powered vehicles. So even though natural gas fuel costs less than diesel, the benefits may not be enough to offset the costs.

As a result, Westport's sales have taken a turn for the worse. Back in late September, the company announced that revenue would fall somewhere around \$135 million, an 18% drop from the \$164 million from the revenue brought in last year.

Making matters worse, oil prices have continued to slide since the *WSJ* article. So natural gas engine technology should now be even less attractive. Expect Westport's revenue to fall short of \$135 million, and keep shrinking from there.

Too expensive

Normally, it is a good idea to be greedy when others are fearful. But this case is an exception.

Westport is still valued at \$245 million, about 1.8 times this year's revenue estimate. This multiple is an absolute bargain by historical standards. But it's still way too high for a company with shrinking revenue, no profitability, and poor prospects. The only good news is Westport has a clean balance sheet, so it can survive for a while. But there's very little for investors to look forward to.

To put it mildly, this is a story you don't want to be a part of.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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

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