



## Why it's Time to Stop Believing the Westport Innovations Inc. Illusion

### Description

Especially in recent years, Canada has seen its fair share of crashing stocks. But few have been as disappointing as **Westport Innovations Inc** (TSX: WPT)([Nasdaq: WPRT](#)), whose shares have declined by more than 90% since mid-March 2012 (including 80% this year). What's gone wrong? And are the shares undervalued? Here's what you need to know.

### The delusion

Let's go back to early 2012 when Westport was flying high. Its first-quarter revenue came in at US\$88.6 million, more than 100% than in 2011. And thanks to low natural gas prices, the company's natural gas engine technology was seen as the way of the future.

At the time, Westport was still losing money. But this didn't matter. With growth numbers like these, as well as a sexy technology, the sky was the limit. The stock traded at roughly 8 times revenue.

But there were some problems with this story. Chief among them, natural gas prices were severely depressed, and when they recovered, Westport's technology became less competitive. As a result, revenue is now declining. And the company remains unprofitable.

### The future looks just as bleak

Westport's future looks a lot less promising than it once did. Not only has revenue been shrinking, but the company has also been cutting research and development expenses in an attempt to stem losses. As a result, it's hard to imagine the company's technology being a game-changer.

Making matters worse, natural gas engine technology has some serious disadvantages. To illustrate, a natural gas-powered truck is about 20% less fuel efficient than its diesel counterpart, and costs about US\$50,000 more as well. Back when natural gas was selling for \$2, it may have still been worth switching to gas. But at \$4 gas, the economics don't really make sense anymore.

That was according to a *Wall Street Journal* article written last August. Since then, oil prices have plunged, putting downward pressure on diesel prices. This is yet more bad news for Westport.

### **So where do we stand now?**

According to Westport's latest guidance, the company expects 2014 revenue to fall somewhere between US\$130 million and US\$140 million. This is already a big drop from last year, when revenues came in at US\$164 million. And given the oil price plunge, even this target may be hard to reach.

Despite all this, Westport still trades for about 1.2 times revenue. This would be acceptable for a profitable company with stable revenues and a decent outlook. For a shrinking, struggling, unprofitable company like Westport, it's still far too high.

So the time has come to stop buying into the Westport illusion. Even if it seems to be too late already.

### **CATEGORY**

1. Investing
2. Tech Stocks

### **TICKERS GLOBAL**

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

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