

Westport Innovations Inc. Shares Have Skyrocketed; Should You Jump on Board?

Description

A month ago, the news could not have been any worse for shareholders of **Westport Innovations Inc.** (TSX:WPT)([Nasdaq:WPRT](#)). The natural gas engine technology supplier saw its shares slip below \$4, after trading above \$20 in early 2014. Looking further back, Westport had traded above \$30 in 2013, and above \$40 in 2012.

But over the last month, Westport's shareholders have gotten some nice relief — the shares are up nearly 90%. So is the start of a big rebound, or is it a head-fake? Below we take a look.

How we got here

First of all, it's important to understand that Westport has never been a profitable business. Its shares traded based on the possibility of natural gas engines taking off. And back in early 2012, with natural gas trading around \$2, that scenario seemed very realistic. As a result, the company was valued at over \$2 billion, despite having barely US\$250 million in sales.

Since then, natural gas prices have rebounded, and oil prices have collapsed. Consequently, natural gas engines are no longer such an attractive substitute for diesel or regular gasoline. Meanwhile, Westport's growth not only stalled, but actually went into reverse (no pun intended). No wonder the shares collapsed.

But over the past month, oil prices have experienced a slight rebound, and there finally seems to be some hope in the sector. This caused some big buying activity in Westport shares.

Still a long shot

So once again, Westport is trading on the possibility of natural gas engines taking over. But how realistic is this scenario?

To answer this question, a *Wall Street Journal* article pointed out that natural-gas powered trucks are struggling to gain traction. Even though natural gas fuel is cheaper, these trucks are 20% less fuel efficient, and cost \$50,000 more than diesel equivalents. All in all, the payback on this extra cost is four years. But large fleet operators typically replace their vehicles every four years anyway, so the extra upfront cost really isn't worthwhile.

Making matters worse, that article was written last August, when oil prices were above US\$90 per barrel. With oil trading so much more cheaply now, the story looks even worse for natural-gas powered engines.

Too expensive

At this point, Westport is trading at roughly three times revenue, assuming the company meets its revised 2014 guidance. For companies that are growing quickly, or are very profitable, this multiple would be appropriate.

But neither of these things are true at Westport. So the shares seem to be very overpriced. Even scarier, we've yet to see the full impact of lower oil prices on the company's business. This may come to light when Westport reports Q4 earnings. I would avoid this company like the plague.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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