



Why Westport Innovations Inc. Shares Could Plummet in Less Than a Week

Description

As the oil rout continues, energy companies have had to update the investment community very frequently. Investors should expect as much; after all, the operating environment has changed so much in the past three months. Even **The Bank of Nova Scotia** detailed its energy exposure on a slide for its Q1 2015 earnings presentation.

Yet one company has been noticeably absent from the conversation, and that is natural gas engine technology provider **Westport Innovations Inc.** (TSX:WPT)([Nasdaq:WPRT](#)). This is very strange. After all, Westport's business model is very reliant on oil. The higher the oil price, the more appealing natural gas is as an alternative.

After markets close on Monday, Westport's silence will be broken, as the company will report results for the fourth quarter of 2014. The company is also set to report guidance for 2015 at that time. Personally, I wouldn't want to hold Westport shares while this is happening.

A tough market to begin with

To put this in proper perspective, let's go back to a *Wall Street Journal* article from late August, which claimed that natural-gas-powered trucks were not really catching on. The problem was simple: natural-gas-powered trucks cost \$50,000 more than their diesel equivalents, and are less fuel efficient too. As a result, the upfront cost simply does not pay for itself over the life of the truck.

Here's what makes this scary. Oil prices averaged US\$100 through the first nine months of last year. So, how appealing do natural gas engines look today, with oil prices having fallen by half?

Noticeably absent

Westport has not answered that question, nor many others, since mid-November. In fact, its latest corporate presentation is dated November 17, 2014. As one would expect, the presentation contains some very out-of-date information.

For example, one slide says, "Widespread availability of low cost natural gas (as a commodity) vs.

expensive oil is driving the first new global fuel for transportation in a century.” The next slide shows the price of diesel fuel at US\$4 per gallon. Today that price is less than US\$3, and will probably drop further once the cold weather subsides. In any case, oil cannot be called “expensive” anymore.

Why is Westport so quiet? One possibility is that it wants to reveal all the bad news at once, which is understandable. After all, who wants to reveal bad-news tidbits every week for three months? I could be dead wrong. That said, just the possibility of this scenario makes Westport shares extremely risky.

No news is good news

Bizarrely, Westport shares are trading higher than they were in mid-November. This is partly caused by the slight oil price recovery, which has given investors some hope. Others have speculated that a short squeeze has taken place.

As a result, Westport’s shares are once again pricing in some big growth numbers. If management is being honest with shareholders on Monday, those hopes will likely be dashed, and the share price could plummet. This risk that is just too much to swallow.

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

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