



3 Key Things to Watch for in Westport Innovations Inc.'s Earnings Report

Description

Westport Innovations Inc.'s (TSX:WPT)([NASDAQ:WPRT](#)) stock has had some wild swings in recent weeks that have left investors bewildered. It's no surprise that they're banking on the company's next quarterly earnings report to make sense of what's going on and what lies ahead. Brace up, because Westport is set to report its fourth-quarter numbers next Monday. While expectations remain low, here are three key things you should watch for.

Top line: trending lower?

For a company that's yet to turn a profit, generating higher sales is the key to sustainability. Westport shocked the market when it reported a staggering 46% slump in year-over-year revenue in its third quarter. The bad news is that analysts estimate the company's Q4 revenue to drop 48% year over year.

While a big drop in Westport's revenue shouldn't surprise you, what's important to understand is how long the pain can last. You can get an idea if you keep an eye on two factors in the earnings report: Europe and service revenue.

Challenging economic conditions in Europe—Westport's key market—has hit the company's sales hard in recent quarters. Meanwhile, service revenue, which is the payment Westport receives for providing product development services to original equipment manufacturers, is also under pressure. Since this portion accounts for more than 10% of the company's total revenue, any lag can hurt its top-line growth.

Oil pinch

The recent plunge in oil prices is one of the major factors that pulled Westport shares down. The company's business stands on one premise: Cost differential between diesel and natural gas makes the latter more viable and attractive as a fuel. But with oil prices plummeting and natural gas prices remaining firm, Westport's prospects suddenly look dim.

Investors need to know how Westport management is handling the situation, and more importantly, if they can quantify the impact of lower oil prices on the company's business. Watch for updates on

demand for Westport's WiNG power system products, which it designs for **Ford**. Demand for WiNG products showed signs of stress in the third quarter, largely because of lower gasoline prices. Since Ford is a key partner, any reduction in demand bodes ill for Westport.

Cash burn

The last thing Westport would want at this stage is cash crunch. So, keep an eye on Westport's cash balances in its upcoming earnings report. While the company ended its third quarter with high year-over-year cash and short-term investments balance, it burned US\$38.6 million sequentially.

What's more, over the nine months through September 2014, Westport's cash balance depleted to US\$130.2 million versus US\$210.6 million it held as at December 31, 2013. Meanwhile, the company's debt increased 10% over the period.

Needless to say, Westport cannot afford to burn cash and needs to control its expenditures. Look for how it plans to do so in its earnings call.

Silver lining

Investors must remember that despite a huge decline in revenue, Westport managed to cut its losses in the third quarter. That indicates that management's focus is on cost control, even as sales growth is hard to come by. If Westport can continue to reduce losses in Q4, investors' faith in management may be restored.

CATEGORY

1. Investing

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

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Author

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