



Why Investors Should Bet on Ballard Power Systems Inc.

Description

The one-year return on **Ballard Power Systems Inc.** (TSX:BLD)([NASDAQ:BLDP](#)) is a dismal -47.22%, while the stock's two-year return is a very pleasing 148.5%. So, depending on when investors got into the stock, they are either really happy or very disappointed.

But really, that is irrelevant for our purposes. What we need to know is if Ballard will be a good or bad investment going forward. Let's look at some of the key reasons why I believe that this company is a good bet with an attractive risk/reward profile and good upside.

Disappointing overall results but some bright spots

Revenue decreased 10% in the fourth quarter of 2014 and increased 12% for the full year to \$68.7 million. The bright spots were in the material handling segment (21% of revenue), which increased 115% in the quarter to \$4.3 million and 123% for the full year to \$14.5 million, and in the engineering services segment (44% of revenue), which increased 43% for the full year. By contrast, the telecom backup power segment was weak, with a 47.5% decline in revenue in the quarter, and so was the development stage markets segment, which saw revenue decline 34.4% in the quarter.

Going forward, the company will focus on two platforms: power products and technology solutions. In technology solutions, visibility is good, as there is increasing interest in fuel cells from the automotive industry, as well as strong interest for the bus market in Europe and trams in China. Ballard is benefiting from contracts with Volkswagen and has 12 outstanding technology solutions contracts, some of those with other auto OEMs.

\$80 million Volkswagen deal provides cash injection and long-term opportunities

In February Ballard announced that Volkswagen will receive Ballard's intellectual property portfolio that was acquired from United Technologies last year for \$80 million, \$40 million of which was received in February, with the remaining amount to be received in the first quarter of 2016.

In addition to this, Volkswagen has extended its engineering services contract with Ballard by two years, taking it to March 2019. The value of this extension is between \$30-50 million. There is also a

further two-year optional extension attached to it. With total 2014 company revenue of \$68.7 million, we can see how significant this deal is.

Ballard retains the rights to use this intellectual property portfolio in non-automotive applications, bus applications, and in limited pre-commercial automotive applications. Furthermore, the deal makes the potential for a component supply deal from Volkswagen more real, and Ballard is still able to work with other car OEMs.

Strong leadership going forward

The new CEO Randy MacEwen, hired in October 2014, has a strong background in the clean energy business, having previously worked at Stuart Energy System and a public solar energy company. MacEwen has a good track record in driving margins and in mergers and acquisitions.

Along the theme of improving gross margins, bonuses will be heavily weighted to gross margin performance, away from revenue growth. The CEO believes that the company has achieved a good balance between the two in its bonus structure.

Potential acquisitions could be a major turning point

The goal is to make a complementary acquisition that will increase the scale of the company, improve the company's earnings profile, and improve its gross margin profile. The company is in talks with various potential targets and management did not give an indication as to the size, so smaller acquisitions are a possibility, as is a more sizable one.

The balance sheet is still strong

As of the end of 2014, the company had a cash balance of \$23.6 million. When the \$40 million received from Volkswagen in February is added, the total balance is \$63.6 million. The company has negligible debt on its books and therefore could conceivably have room for an acquisition without raising equity, depending on the size of the acquisition.

While the stock should clearly be relegated to the more speculative weighting of investors' portfolios, it is one that has good potential upside, as its technology continues to be invested in and increasingly accepted by the market.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:BLDP (Ballard Power Systems Inc.)

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