



## Is Westport Innovations Inc.'s 50%+ Surge in 2015 Justified?

### Description

Shares of **Westport Innovations Inc.** (TSX:WPT)([NASDAQ:WPRT](#)) have been on an absolute tear, which is a welcome relief for its shareholders. As of this writing, the stock increased by 7% on Monday, and by 33% in the past month alone.

So, that leaves the all-important question: Is this price surge justified?

#### First, the good news

There are a couple of big reasons why Westport's stock has done so well. First of all, the oil price has surged recently, going from the low US\$40s in March to just under US\$60 today. Westport's natural gas-engine technology benefits from high oil prices, since it makes natural gas-based engines more competitive.

Second, Westport reported better-than-expected numbers for the first quarter of 2015. Revenue of US\$28 million beat estimates by about US\$1.5 million, and earnings per share beat estimates by US\$0.10. This broke a long string of bad news for Westport's shareholders, and the stock has responded in kind.

#### Some problems beneath the surface

Make no mistake, Westport's first-quarter numbers were still awful. They only beat estimates because expectations were already so low.

To illustrate, Westport's revenue declined by 30% year over year. Even worse, the company's gross margin declined from 30.8% to 19.3%, partly due to "weaknesses in some markets as a result of the continued low price of oil."

To make up for these issues, Westport slashed operating expenses by a third. Included in this is a 36% reduction in research & development expenses. Such a cut should be especially worrying, considering that Westport's technology is still uncompetitive with most diesel alternatives.

Meanwhile, profitability still seems to be a long way off—Westport reported a loss of US\$0.17 per share. The company hopes to achieve positive adjusted EBITDA by mid-2016, but this won't be easy with revenue shrinking so much. And even once this goal is achieved, non-cash expenses (such as stock-based compensation) ensure that net losses will continue.

### **An overpriced stock**

Despite all these issues, Westport's stock has continued to climb, and is up by more than 50% in 2014. The company is now valued at nearly US\$400 million.

To put this in perspective, Westport anticipates generating US\$110-125 million in revenue this year (not including revenue from joint ventures), so the company is valued at just over three times revenue. That's a rich price for an unprofitable company, especially one with a shrinking top line.

Making matters worse, there are reasons to believe the oil rally will be short lived. Now that oil prices have bounced back somewhat, some producers are starting to bring back their drilling plans. This could create an oil price ceiling of about US\$60. That wouldn't be good news for Westport's competitiveness, nor its stock price.

To make a long story short, Westport's shares could easily fall right back down. You should stay away.

### **CATEGORY**

1. Investing
2. Tech Stocks

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

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

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