



Is Westport Innovations Inc. a Bargain After Falling Below \$5 Per Share?

Description

Natural gas engine-maker **Westport Innovations Inc.** (TSX:WPT)([NASDAQ:WPRT](#)) has had a rough ride, and as a result its share price has been hammered. In the past 12 months alone, its shares are down by roughly 70%, and once again trade below \$5.

So, what exactly has gone wrong? And with the shares so depressed, are they in bargain territory?

The promise

Back in 2012 everything was going right for Westport. Its first-quarter revenue totaled US\$88.6 million, up more than 100% year over year. Natural gas prices were severely depressed compared to oil, making the company's engines very competitive. There was speculation about all the places Westport's technology could be used, including trucks, ships, trains, and even cars.

The company seemed unstoppable, and as a result traded at eight times revenue, even though net income was still negative.

The reality

Over the next few years, the story started to unravel. First, natural gas prices recovered, making the company's technology less competitive with diesel engines. Then oil prices collapsed, making natural gas even less competitive.

As a result, Westport's revenue growth turned negative. Just last year revenue totaled just US\$130.6 million, a decline of more than 20% relative to 2013. In 2015 the declines have become even worse, with revenue decreasing by 30% in Q1 and 27% in Q2.

To deal with this problem, Westport has been furiously cutting expenses. This includes some big cuts to research and development, which decreased by 34% this year. While these cuts may be necessary, it does not bode well for the company's long-term health, especially since natural gas-engine technology has to play catch-up with its diesel counterpart.

The shares

Westport's prospects have declined significantly, but so have its shares. So, is the stock a bargain?

Well, at \$5 per share, Westport would be valued at about US\$250 million. By comparison, the company expects to earn revenue of US\$110 to US\$125 million in 2015.

Westport trades at just over two times revenue, which is a high multiple by most standards. But it's especially high for a company with shrinking revenue and zero profitability. To put this into context, if Westport stopped its revenue from sliding and achieved a 10% profit margin, its shares will still trade for about 20 times earnings. And this kind of scenario is still a long way off.

We knew already that Westport shares were risky, but it's also clear there's not enough reward to compensate for this risk. If you already own shares of the company, you should sell today. For a better stock to own, just check out the free report below.

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

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