



Is Now the Time to Buy Westport Innovations Inc.?

Description

Westport Innovations Inc. (TSX:WPT)([NASDAQ:WPRT](#)) was among the biggest losers on manic Monday when the turmoil in China sent global markets crashing. The extended streak of losses now means that a staggering 75% of Westport's value has been wiped out over the past year.



[WPT](#) data by [YCharts](#)

So, is this the bottoming that Westport investors have been desperately waiting for?

Falling oil = Rising risk

Two of the biggest worries for Westport right now are oil prices and China. Crude oil dropping to six-

year lows below US\$39 per barrel is terrible news for a company that wants to push alternative fuel like natural gas, simply because the cost differential between diesel and natural gas is one of the primary factors that makes the latter attractive and viable. In other words, not many people may want to switch to a natural gas engine (given its high costs) when oil is getting cheaper and cheaper.

What's worrisome is that late last year, Westport had highlighted how low oil prices have hit demand for its WiNG power system products that it designs for **Ford**. Remember, oil was then trading over US\$60 per barrel. So one can only imagine what a huge hit Westport's business could take now that oil has breached US\$40 per barrel.

China: a huge setback

Meanwhile, truck sales in China are heading south – industry sales of medium-and-heavy-duty trucks in China plunged 28% during the second quarter. How does that affect Westport? Its joint venture with China-based Weichai is one of its key sources of revenue today.

In Q2, revenue from Weichai-Westport slumped 68.5% as the venture sold less than half the number of units year over year, thanks to a weak truck market. As a result, Westport's income from the venture slumped to US\$0.1 million from US\$0.7 million a year ago. That's the last thing a company that's struggling to break even would want to see.

So where does Westport go from here?

There are no two ways about it: The crisis in China has put Westport in a spot. It's unfortunate that industry conditions continue to weaken even as the company works hard to reduce costs and improve its cash position. Westport's last quarter [evidenced progress](#) on that front.

For investors, recent developments could only mean that they may have to wait longer to see Westport turn profitable. The company is showing visible progress by expanding its product line and increasing focus on core operations. A larger number of fleet operators are also turning towards the cleaner fuel.

But if investors were wary that natural gas hasn't really taken off as an alternative fuel, the recent slide in oil prices and uncertainty in China could only push back the rate of its adoption. Long story short, there are hardly any catalysts to support Westport shares right now, and investors may be better off sitting on the sidelines.

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1. Investing

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1. Editor's Choice

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

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