



The Big News That Sent Westport Innovations Inc. Stock Tumbling to All-Time Lows

Description

Westport Innovations Inc. (TSX:WPT)([NASDAQ:WPRT](#)) investors' hopes to see the beleaguered stock gain some ground in December were dashed the very first day of the month when the stock dropped more than 3% to hit its all-time low.

While sharp drops in Westport's stock without valid triggers isn't anything new, yesterday's fall comes on the back of a development that investors cannot ignore.

The big blow

Investors know by now that whatever little income Westport currently earns comes from its joint ventures with **Cummins** ([NYSE:CMI](#)) and China-based Weichai. Latest developments, however, signal trouble for both.

The Bank of America/Merrill Lynch downgraded Cummins to sell yesterday, sending the engine maker's stock plummeting by more than 8% during the day.

Analysts at Merrill Lynch fear that a slowdown in the U.S. truck market and sluggishness in China could weigh on Cummins's sales. Needless to say, that will also hurt Cummins-Westport's revenues, which is primarily why Westport's stock took a dive after the news of Cummins's rating downgrade hit the market.

The bad news doesn't end there

In fact, there's double trouble here. Analysts at Merrill Lynch predict a further devaluation of Chinese currency, which could hurt the industrial sector, including transportation. It doesn't help that the Chinese trucking market is already witnessing significant declines on production volumes and order rates.

For perspective, industry demand for medium- and heavy-duty trucks in the nation slumped 24% year over year during the third quarter, and Cummins expects full-year industry sales to decline 30%.

Any further weakness in China is double whammy for Westport as it'll hurt sales from both of its ventures with Cummins as well as Weichai. The pain is already visible in Westport's numbers: Weichai-Westport's revenue slumped a whopping 81% year over year in Q3, with Westport's share of operating income from the venture plunging 88% year over year.

This risk isn't worth taking

Westport's challenges are only multiplying. A slowdown in key end markets is the last thing a loss-making, cash-strapped company wants to hear. And when you factor in Westport's [impending acquisition](#) of another loss-making company, **Fuel Systems Solutions Inc.**, you know the company is digging itself a deeper hole.

Cummins's rating downgrade and bad news from China have added salt to the wound, and I'm afraid investors may lose patience by the time the wound heals.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:WPRT (Westport Fuel Systems Inc.)
2. NYSE:CMI (Cummins Inc.)

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