



## Westport Innovations Inc.: Don't Expect This Company to Survive 2016

### Description

It has been a year that **Westport Innovations Inc.** (TSX:WPT)([NASDAQ:WPRT](#)) would like to forget.

Some things did go right. It proposed a merger with **Fuel Systems Solutions**, one of its bigger competitors. The synergies created by the deal should help keep costs down for the newly combined company in the future.

Work continued on the company's next generation of engines, which are set to hit the market between 2016 and 2018. HPDI 2.0 is a new high-performance natural gas engine the company is particularly excited about, which should perform just about as well as a diesel-fueled engine. Performance is a huge stumbling block for trucking companies that might want to go with a natural gas engine. HPDI 2.0 should change that.

Finally, the original thesis for investing in Westport remains intact. Even after oil's decline, it's still cheaper and better for the environment for a trucking company to convert diesel engines into natural gas. The environment remains a hot-button issue.

Unfortunately for Westport, that's where the good news ends. And the bad news is really bad.

### Watch out below

The declines in Westport's business from 2014 to 2015 are nothing short of extraordinary.

In 2014 Westport did \$1.1 billion in revenue from its three business segments. Approximately \$130 million came from its own sales, \$337 million came from its joint venture with **Cummins**, and \$619 million came from the company's Chinese partnership with Weichai.

Through the first three quarters of 2015, revenue only came in at \$458 million. The most striking decline was from China. The joint venture with Weichai is only projected to bring in \$175 million for the year. That's a stunning decline of more than 70% year over year. Or, to put it another way, in 2014 the company sold 51,006 engines in China. It's on pace to sell just 14,485 this year.

These dismal numbers have wreaked havoc on Westport's attempts to become profitable. In the company's most recent quarter, the company lost \$0.58 per share. Over the last year the numbers haven't been much better, with the company losing \$0.32, \$0.27, and \$1.02 per share, respectively, in the three quarters before. Over the last year, total losses have been \$2.19 per share.

Yes, some of those losses have been write-offs and thus haven't affected the company's cash flow. Still, investors have to be concerned about the cash burn. At the beginning of the year Westport was sitting on US\$94 million. In just nine months, the cash pile dropped more than 55% to US\$42 million. At the current pace, Westport will need a cash infusion in the next six months to remain solvent.

The cash injection could come from its merger with Fuel Systems. The latter company currently has US\$61 million in cash, but it has also burned US\$30 million in the last year. And in its last quarter, Fuel Systems lost \$1.24 per share. If the merger does go through, any relief looks to be short-lived.

By far the biggest factor hurting Westport is the decline in oil. As much as we'd like to believe that people are motivated to do good for the environment, ultimately, folks are motivated by money—especially those in developing nations such as China. So even though the price of natural gas has fallen just as much as oil, truck drivers who are happy with the price paid at the pump don't have much incentive to switch.

Next year isn't looking much better than 2015 was for crude. The battle between OPEC and North American shale producers looks like it'll continue to dominate the business world next year. Oversupply issues still plague the market.

Unless crude heads much higher in 2016 and takes the price of diesel fuel with it, I don't see how Westport will survive 2016. It's simply burning too much cash. There are interesting assets there for a much larger company, which could mean the company will get taken out right before bankruptcy. Still, I wouldn't bet on it. Investors have to prepare for the company's imminent demise and hope for the best.

## **CATEGORY**

1. Investing
2. Tech Stocks

## **TICKERS GLOBAL**

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

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