



Westport Innovations Inc. Is Flying Through the Roof: Here's What You Need to Know

Description

Volatility isn't anything new for investors in **Westport Innovations Inc.** (TSX:WPT)([NASDAQ:WPRT](#)), but the past two days have been the craziest ride ever. Westport jumped a jaw-dropping 55% as of this writing on January 21 and 22, reversing all its losses since the beginning of the year. For a stock that has only seen new lows for a couple of years, this rally has left investors bewildered.

The only trigger that appears to have tickled the market's excitement is the big news that came in a couple of days ago: Westport received a certification from the Environmental Protection Agency for both its dedicated and bi-fuel compressed natural gas fuel systems for 2016 **Ford** ([NYSE:F](#)) F-150 pickups.

Why is it such a big deal?

The reason is simple: F-150 has been America's best-selling vehicle for more than three decades now. Like every year, it was the truck of the year in 2015.

More notably, the Ford F-150, when powered by Westport's WiNG Power System, will become the only half-ton truck of all original equipment manufacturers to offer natural gas as a fuel option. In short, a natural gas F-150 has no competitor to date. Now combine the F-150's popularity with the option of a cleaner fuel, and you know that Westport has a game-changing product in hand.

Heard that before?

If you think you've heard this before, you're partly right. Westport launched its WiNG Power System for the Ford F-150 in the middle of last year, and the market reacted strongly back then, too. But the difference is that the EPA's certification is a strong stamp of confirmation of the huge growth potential ahead of Westport. Its tie-up with Ford is considered to be Westport's trump card to make headway into the U.S. alternative-fuel market.

With the U.S.'s best-selling truck now approving Westport's natural gas-engine technology, investors are hoping the worst is over.

But does this indicate Westport's turnaround?

Before the two-day surge, Westport was down 53% in one year and was trading at 5% of its peak 2012 value. Naturally, any positive news acted as a huge trigger. But a 55% surge is certainly unwarranted.

Westport's alarming cash burn combined with plunging oil prices and the turmoil in China sent investors scurrying for cover, even as they ran out of patience while waiting for the company to break even.

While Westport expects its consolidated business to turn adjusted EBITDA (earnings before interest, taxes, amortization, and depreciation) positive by mid-2016, shareholders stand to gain nothing until it turns profitable.

The bigger concern

As if the painfully slow pace of adoption of natural gas wasn't enough, fleets will now need larger incentives to switch to the alternative fuel as oil prices touch multi-year lows, making diesel and gasoline a lot cheaper vis-à-vis natural gas.

To make matters worse, the U.S. Energy Information Administration (EIA) projects natural gas prices to rise as supply draws down in winter. In fact, the EIA projects natural gas prices to jump sharply to US\$3.22 per million British Thermal Units (MMBtu) in 2017 from current prices of around US\$2.10/MMBtu.

Long story short, Westport has a long way to go before it can fetch shareholders any meaningful returns. Stay cautious of huge one-day movements as the stock can fall as quickly as it rises.

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2. NYSE:F (Ford Motor Company)

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Date

2025/07/04

Date Created

2016/01/22

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