



3 Key Things Westport Innovations Inc. Investors Should Watch Today

Description

A lot of crucial updates are coming **Westport Innovations Inc.** (TSX:WPT)([NASDAQ:WPRT](#)) investors' way on May 12 after market close, including Westport's first-quarter numbers, its outlook for 2016, and an update about its impending merger with **Fuel Systems Solution Inc.** (NASDAQ:FSYS).

Westport's guidance in particular is much awaited as the company didn't provide it last quarter, as is the status of the merger, especially after one of Fuel Systems' co-founders revealed his intentions to vote against the deal.

So what should investors expect from Westport's report?

Two C's to watch: Cartesian and cash

There haven't been too many developments since Westport's last earning release late March, except one: Westport received US\$6.3 million up front for a "derivative" sale of its ownership in its Hong Kong holding company to Cartesian Capital.

A derivative sale gives Westport the option to acquire ownership in the asset after a certain period of time. Without going into the details about the complicated transaction though, the cash that Westport received is the point to note here.

Rapid cash burn has been one of Westport's biggest concerns in recent quarters, so any infusion is a life saver. Investors must therefore look beyond Westport's top- and bottom-line numbers when it reports its Q1 earnings. Pay attention to two numbers in particular:

- How much cash in operations did Westport use during the first quarter?
- Where do its cash, cash equivalents, and short-term investments stand? Westport's balance of US\$27.8 million as of Dec. 31, 2015 was down a whopping 70% from Dec. 31, 2014.

If Westport's cash balances continue to trend south, investors should consider it a red flag.

Remember, Westport is also banking on its merger with Fuel Systems to strengthen its balance sheet

as the latter is a cash flow positive, debt-free company. However, Westport couldn't complete the deal in April as planned thanks to unexpected hurdles, the latest being strong opposition from one of Fuel Systems' co-founders, who holds 8.7% stake in the company.

Fuel Systems will open up voting to its shareholders on May 31, which will essentially decide whether the merger will go through or not. Needless to say, investors can't miss any update that Westport may provide in its upcoming earnings call about the merger.

You simply can't miss this number

Westport's joint venture with **Cummins** is its most important key to profitability.

While Westport's income from Cummins-Westport more than doubled to US\$17.1 million in 2015, shipments in the fourth quarter slumped as global trucking markets weakened.

Another sluggish quarter could indicate deteriorating end-market conditions, which could push Westport's turnaround back. That's the last thing investors want to hear now, especially when uncertainty in China is already driving sales at Weichai-Westport lower. The two ventures are Westport's key sources of income.

Given the backdrop, does Westport still expect to turn consolidated adjusted EBITDA positive this year? A positive answer is a must to re-instate investors' faith, otherwise the stock could give up whatever little it has gained so far this year.

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