



Should Investors Buy Ballard Power Systems Inc. on Weakness?

Description

Shares of **Ballard Power Systems Inc.** ([TSX:BLDP](#))([NASDAQ:BLDP](#)) have declined 19% from the highs of over \$4.40 reached in May of this year. This is enough of a move to get my attention, and I am left with the question of whether or not this is a good time to buy or add to positions.

First off, let's review the bigger picture. Year to date, the shares have returned 44%, and while the company has yet to report net earnings, margins are rising, and the valuation is reasonable, trading at 5.5 times sales and four times price to book.

The fuel cell market continues to build momentum, as clean air becomes an increasingly important goal for countries across the world. From China to Europe to California, governments are showing more interest and activity in fuel cell vehicles. Ballard has been involved through partnerships and joint ventures and is seeing its FCveloCity engines being used to power buses in Beijing and Vancouver.

From buses to trains to cars, the fuel cell is quickly gaining traction around the world.

Reviewing the improved financials

In 2016, revenue increased 51% to \$85 million. And in the first quarter of 2017, revenue increased 39%, and the gross margin was 42%. According to management, we can expect this trend to continue as they do more of the same in 2017, continuing to drive down costs and focus on higher-margin business.

So far in 2017, the company reported backlog of \$87 million. Moving down the income statement, we can see that gross margins have been improving dramatically, as the company has been working costs down, benefiting from scale and volume, and increasing revenue from its higher-margins businesses. In 2015, gross margin was 18%, in 2016 it was 28%, and in the last two quarters of the year, it was above 30%.

And while the company is still reporting losses, the losses are reducing and the opportunities are growing.

Lastly, a key component of this story is the fact that the company has maintained a very strong balance sheet, ensuring that it has the flexibility and ability to respond to market conditions. Ballard still has no debt on its balance sheet, and as of the end of the first quarter of 2017, it had \$72.6 million in cash, which represented an increase of 81%.

Management mentioned mergers and acquisitions as a possibility in the 2017-2018 time frame, and this could be a game changer.

In my view, the weakness in Ballard's share price is a good opportunity for investors to get into the stock. Keep in mind that the stock is probably in the higher-risk category. That being said, I believe that the risk/reward proposition on it is very attractive.

CATEGORY

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