



Should Investors Buy Ballard Power Systems Inc. Before its 2nd-Quarter Earnings Report?

Description

With **Ballard Power Systems Inc.** ([TSX:BLDP](#))([NASDAQ:BLDP](#)) expected to report second-quarter results at the end of July, I thought it would be useful to review the company and consider if investors should invest in the shares ahead of the report.

The stock has a year-to-date return of 29.4% and is down 18.3% from highs hit in April of this year.

In the first quarter of 2017, revenue increased 39% and the gross margin was 42%. While EPS was negative \$0.02, it was an improvement versus the prior year and it met expectations. And so far in 2017, the company reported strong backlog of \$87 million.

In 2016, revenue increased 51% to \$85 million. The income statement highlights just how much progress the company has made with respect to margins and efficiencies.

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-margin 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%.

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.

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

Since the company reported its first-quarter results, we have seen it continue to move forward and gain wider acceptance of its fuel cell engines. Yesterday, Ballard announced an order from SunLine transit Agency in California for five FCVeloCity fuel cell engines, and the company is partnering with a key North American bus OEM (EIDorado National) and London's BAE Systems.

Earlier in July, the company announced continued progress in China, where it received a \$29 million order from Chinese company Broad-Ocean for 600 fuel cells which will be used in clean-energy buses

and trucks in key Chinese cities. Lastly, the company announced its first-ever order for its fuel cells to power unmanned aerial vehicles.

The company continues to make progress, diversify, and to build scale.

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, had \$72.6 million in cash, which represented an increase of 81%.

Management has also mentioned M&A as a possibility in the 2017-2018 time frame, and this could be a game changer.

Consensus expectations are calling for Ballard to report second-quarter EPS of \$-.02. I would buy the shares.

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