



Why Ballard Power Systems Inc. Tanked 13.72% on Thursday

Description

What?

Fuel cell and clean energy solutions provider **Ballard Power Systems Inc.** ([TSX:BLDP](#))([NASDAQ:BLDP](#)) watched its stock tank 13.72% on Thursday following a report by Spruce Point Capital Management LLC entitled “Fuel SELL Opportunity” that questioned the company’s ability to deliver on its growth plans and placed a “strong sell” recommendation on the stock.

So what?

In the report, Spruce Point cites industry challenges in China as well as challenges to Ballard’s partners.

First, Spruce Point states that the “Chinese hydrogen fuel cell market is still in very nascent states of development,” and that “it still remains highly uncertain if China will develop the fuel cell vehicle market beyond an experimental phase.” It goes on to show that projects in China currently represent 78% of Ballard’s backlog, which is a recipe for disaster if plans are “postponed or scrapped.”

Second, Spruce Point points out issues with two of Ballard’s largest partners, [including Broad Ocean](#), which it suggests Ballard is having a “cash crunch” and may “be unable to continue to make good on purchasing commitments.” Spruce Point also notes that Broad Ocean owns 17.2 million shares* of Ballard with a two-year hold period that ends in July of this year, so if deals start falling apart and Broad Ocean needs cash, there’s a good chance it will unload its shares and cause another sell-off in Ballard’s stock.

Spruce Point breaks down several other points in great detail, and eventually makes the following statement:

“We believe that Ballard shares should trade in line with its fuel cell peers’ historical valuation range at 2.0x-2.5x and 1.5x-3.5x price/book value and price/LTM sales, respectively. These ranges imply a long-term price target for BLDP of \$1.15-2.50 per share or 35-70% downside risk.”

Now what?

Spruce Point is a short-focused research firm, and its founder Ben Axler describes himself as “an activist short seller” and a “forensic financial researcher,” and he states that he has “exposed over US\$1 billion of alleged frauds on the NASDAQ and the NYSE.” This track record is why the market reacted so viciously towards Ballard’s stock on Thursday, and regardless of whether or not Spruce Point’s research is accurate, it appears as if investors are not willing to stick around to find out.

Ballard’s stock is now down more than 41% [since November 3](#) and more than 25% year to date, and Spruce Point’s price target of US\$1.15-2.50 suggests that it could fall another 23-65% from here.

If you are a shareholder of Ballard Power, I would recommend reading Spruce Point’s full report and drawing your own conclusion on whether or not you believe in the company’s ability to deliver on its growth plans. That being said, I would not place a new investment in the company today, because I simply do not think it’s a good idea to invest in a company that is in the spotlight for negative reasons.

**the original version of this post indicated 7.2 million shares, which is incorrect.*

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