



Should You Buy Ballard Power Stock in January 2023?

Description

Shares of **Ballard Power Systems** ([TSX:BLDP](#)) have been a brutal wealth destructor. In the last year, the stock has dropped 38% and a massive 82% since January 2021. While many new-age growth stocks have been on a downtrend since last year, Ballard Power has lost a majority of its value due to its weaker fundamentals.

But as people talk about how hydrogen fuel cells are the next big thing, why are Ballard Power and many of its peers losing value?

Ballard Power: What does it do, and what has it achieved?

Ballard Power designs, develops, and sells PEM (Proton Exchange Membrane) fuel cells that are used in buses, trucks, railways, and marine applications. A fuel cell is an environmentally clean electrochemical device that produces electricity with a combination of hydrogen fuel and oxygen.

According to the company filings, Ballard's PEM fuel cell products feature high fuel efficiency, low operating temperature, low noise and vibration, compact size, quick response to changes in electrical demand, and a modular design.

Hydrogen is gaining ground as an alternate fuel as the only byproduct it produces is water vapour. As a result, it could make a substantial difference if we want to achieve a net zero emission target in the long term. However, hydrogen as a fuel is not economically competitive in the current environment because of the lack of scale.

To put that in perspective, it [costs](#) around US\$18.58 to US\$33.44 per dekatherm to produce hydrogen, while natural gas costs around US\$1.00 to US\$4.5 per dekatherm. However, as the scalability grows, the cost of the hydrogen fuel cell will fall and increase adoption, making it more lucrative for producers.

Ballard Power: Financial growth

Ballard Power has a diversified revenue base and exposure to high-growth regions. It generates 20% of its revenues from North America, China contributes 35%, while Europe brings in 40%.

In the last 12 months, the company reported a net loss of \$183 million on total annual revenues of \$100 million. Its cash-rich balance sheet with negligible debt is a silver lining.

However, Ballard Power has been seeing flattish to declining revenue growth for the last few years. The fuel cell maker continues to operate at a net loss. While hydrogen as a fuel could see multi-fold growth in the long term, it is in the nascent stage right now. Ballard Power may need time to turn operationally profitable.

Ballard Power stock has had a positive start to 2023 and soared almost 20% since the beginning of the year. Even after the stock has started on a long-term downtrend, it does not seem appealing from a [valuation](#) standpoint. BLDP stock is currently trading at a price-to-sales ratio of 23x and looks expensive.

Taking the long view

Ballard has to see a consistent increase in revenues, which will boost investor sentiment. Its operating costs will also have to decline remarkably to achieve sustained profitability.

After a streak of interest rate hikes last year, the cycle is expected to continue, at least in the first half of 2023. Higher rates make growth stocks like Ballard less appealing, as we saw last year. So, higher rates and inflation could negatively impact its financials and stock price performance this year. Investors can look for other attractive [TSX growth stocks](#) with consistent profitability and solid growth prospects.

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