



Is it Time to Concede That Westport Innovations Inc. May Never Be Profitable?

Description

Since its founding in 1995, Vancouver-based Westport Innovations Inc. (TSX:WPT)([NASDAQ:WPRT](#)) has spent over US\$ 700 million in research and development in order to corner the natural gas engine market. However, in the years since, the company has failed to post any net income and has built up an accumulated deficit of US\$765 million. Yet investors are still intrigued by the company and its natural gas engines and related products, with the belief that in the long run, these products will become more appealing.

The big question now is what should investors do with this company? With all the hype and technological fan-fare surrounding it, Westport has managed to swoon many investors, while simultaneously drawing severe criticism that it has failed to produce any profits.

An unwanted technology?

Over at Westport, quarterly report day has quickly become “time for the stock to crash” day. This is a trend that has not gone unnoticed as a 34 minute IROC trade halt was initiated when the report was released to the public. Westport remained consistent in this quarter as it posted a net loss of US\$64.9 million. It is slightly comforting that this loss is down from the US\$89.5 million net loss in Q4 2013 and US\$98.8 million net loss in Q4 2012.

Revenues fell in the quarter to \$27.4 million from \$52.6 million last year, Westport has attributed this to the retirement of its first-generation Westport HPDI system. The discontinuation of this engine platform should be good news for Westport, as it was hindered by performance issues and failed to impress many trucking companies.

2014 Milestones

Westport had earlier predicted that the fourth quarter would be “rough” due to market conditions, but its year-end results presented a few notable surprises. The biggest positive surprise in the annual portion of the report was that Westport has finally managed to cross the US\$1 billion mark in consolidated revenues. The actual amount of consolidated revenues was US\$1.08 billion up from US\$941 million in 2013 and US\$625 million in 2012.

The bulk of the revenue growth came from two of Westport’s joint ventures, with Cummings-Westport (50% ownership) posting an increase of revenues of 9%, and Weichai Westport Inc. (35% ownership) posting a 33% increase in revenues. In 2014, Westport posted a net loss of US\$149 million down from 2013’s net loss of US\$185 million.

Is Westport worth investing in?

In short, it is less likely that investors will revisit the types of prices they saw in 2012, when the stock was trading at over \$40.00. For many investors, Westport is the ultimate gamble on the TSX at the moment. However, the industry will flounder domestically as long as the LNG dreams in B.C. fail to materialize and the infrastructure for natural gas fueling stations remains absent. This leaves Westport increasingly dependent on its foreign joint ventures and OEM partnerships in China and India for growth.

The markets appear to be turning against Westport, as each year, the number of outstanding shares increases. At the end of 2014, there were 63.1 million outstanding shares available, up from 54 million in 2012. Then you have the stock price that closed Monday at \$7.18 with a 52-week range of \$3.82-20.32. The average price target for Westport’s shares on the TSX appears outdated, as the average price target is still set at \$19.40. When we look at Westport’s NASDAQ shares (which are more heavily covered by analysts) we see an average price target of US\$9.63.

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1. NASDAQ:WPRT (Westport Fuel Systems Inc.)

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