



Mossberg's Investor Digest

Idea Profile

Westport Innovations (Nasdaq: WPRT)

DESCRIPTION:

Westport provides technologies that enable engines to operate using natural gas (NG), hydrogen and biofuels. WPRT has a rapidly growing installed base of more than 17,000 NG engines operating in 19 countries. Through its 50/50 joint venture with Cummins, WPRT provides natural gas mid-range engines for buses, trucks, refuse handlers and other urban work vehicles. WPRT also operates a heavy-duty truck business that delivers NG gas fuel systems for the heavy-duty truck market. WPRT holds a 3% interest in Clean Energy (Nasdaq: CLNE), North America's largest provider of NG fuel and service infrastructure for vehicles, a 50% interest in a NG fuel tank marketer, and a 49% interest in a JV with an Italian company that provides fueling systems for new vehicles and for aftermarket conversion.

KEY INVESTMENT CONSIDERATIONS:

Large market opportunity – The medium- and heavy-duty truck market generates \$300 billion annually and is growing at 11%. For some perspective, WPRT delivered 2,700 units in FY08. In the U.S. bus and refuse handler markets alone, there are 280,000 vehicles. Only 20% of buses and 1% of refuse handlers are fueled by NG.

Strong economic advantages to using NG – NG is 95% as efficient, but it's almost 50% cheaper than diesel fuel.

Emission standards, subsidy programs and national security concerns are accelerating the adoption of NG fueled vehicles – NG is the most logical substitute for diesel and/or gasoline. NG is the cleanest of all fossil fuels, is non-toxic and non-corrosive (long engine wear). Compared to other solutions, NG is also a more mature technology. In addition, many countries, like the U.S., have abundant domestic reserves of NG. With 70% of U.S. oil being supplied from other countries, domestic NG provides an attractive near-term alternative to price volatility and potential future disruption in oil supply. For all of these reasons, trucks using NG are eligible for tax credits and other emissions credits, which should fuel its adoption.

CATALYSTS:

Asia market opportunity – In July, WPRT formed a joint venture to develop and market NG engines to be used in cars, heavy-duty trucks, power generation and shipping applications. The Weichai Westport joint venture will serve Asia, the fastest growing market for medium- and heavy-duty trucks (Growing at 16% and expected to reach \$280 billion by 2012).

Passenger Vehicles – WPRT's technologies can be applied to a broad range of applications, including passenger vehicles. Converting existing vehicles may be closer than we think. WPRT is developing aftermarket conversion systems and Fuelmaker www.fuelmaker.com has developed a home appliance that allows users to fill up NG vehicles using a household NG line.

KEY RISKS:

Highly speculative investment – Even though NG fueled engines have been around for a while, the market is still in its beginning stages.

Not profitable – While the Cummins joint venture has been profitable since 2004, Westport does not currently generate profits and it's not clear when they will. This can make the valuation subject to significant swings.

VALUATION:

To value WPRT using traditional metrics, you'd have to look at revenue and profitability 3-5 years out. To estimate profitability we can look at the CWI joint venture, which generated approximately 12% to 15% operating margin over the past two years. I will use the same range as a target for operating margin for the whole company, which should be conservative. In 2008, the company sold 2,700 units, generating \$26,300 in revenue per unit. If we assume the contribution per unit does not change and the company is able to triple the unit volume over the next 3-5 years, WPRT could generate EPS of approximately \$0.60 to \$0.75 using the targeted operating margin. Clearly this is not a stock for value investors. Despite what appears to be a significant head start in being the lead player in the market for NG engines, the valuation is likely to be highly volatile until WPRT can generate cash flow and/or profitability. This is a "story stock" with the potential for a lot of good news that could be generated over the next several quarters. Additional orders, more news from the Picken's plan (Pickens invested in the latest round and owns 10% of the company) and new application announcements could all fuel the stock price.

(Nasdaq: WPRT)

Investment Data (as of 9/29/08)

Recent Price	\$10.35
52-Week Range	8.20 - 13.55
Fiscal Year End	March
Shares Outstanding	27.5 MM
Average Trading Volume (3 mos)	208,000
Market Capitalization	285 MM
Cash	17 MM
Long Term Debt	12 MM
Enterprise Value (EV)	280 MM
LT Debt/ Equity	0.5
Tangible BV/ Share	0.77
TTM Revenue	79 MM
P/ Revenue	3.9x
TTM EPS	-0.33
P/ EPS	N/A
TTM EBITDA	-16 MM
EV/ TTM EBITDA	N/A

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