



Canadian Marijuana Stock in Fresh Trouble

Description

Just when the marijuana stock [seemed to have weathered a negative revenue-growth](#) streak, discouraging news keeps coming out of **Namaste Technologies** (TSXV:N). The latest news release may make concerned investors decide to completely stay away from the cannabis retailer's ticker for a longer while.

The company's press statement of March 5 was loaded with some scary stuff.

Reputable auditor resigns

Namaste's new auditor PricewaterhouseCoopers LLP (PwC) has resigned after just five months on the job! PwC was appointed auditor at Namaste in September last year after a previous auditor was fired by the company for no disclosed reason.

The company revealed that PwC "resigned on its own initiative" and the audit firm "did not complete an audit of the corporation since its appointment."

While it is stated that PwC has nothing material to report concerning its voluntary resignation from the job, investors shouldn't take auditor resignations lightly, especially one that happens when a newly appointed auditor could not complete its first-ever year-end audit and leaves right in the middle of it.

The reason for the resignation remains a subject of speculation. There could have been some conflict on the application of accounting rules and reporting standards or other grave issues, like financial mismanagement or worse, but until such issues surface later, investors may remain skeptical of the company's financial performance and status of internal affairs.

Naturally, an accounting firm won't typically resign from a lucrative client, unless if their priced reputation is at stake, or there is another very good reason. Whatever the reason, an auditor's resignation may imply some severe problems in a listed company.

Potential failure to report

The company says that it may fail to file annual financial statements by the March 31, 2019, regulatory deadline.

The potential deadline miss may be related to the untimely departure of an auditor before the conclusion of financial audits for the fiscal year, and the company is in the process of finding a new auditor who will also take some time to go through the review process.

Whatever the reason for missing a filing deadline is, this is a bad incident that further damages a company's reputation, or what's left of it, after previous reports of insider self-dealing and breaches of fiduciary duty by the CEO concerning a sold U.S. subsidiary were confirmed by the company recently.

Legal counsel lapses?

After recent management changes, the company is thoroughly reviewing its businesses to ensure strategic focus and full compliance with local market laws in its global e-commerce businesses.

Compliance issues are material to the stock as any breaches may attract hefty fines and business activity bans. Such reviews are critical, and are usually done before business launches, after which continuous monitoring commences. Could there have been some lapses in the firm's legal counsel?

Then some regulatory breach in Brazil...

Some irregular tobacco product adverts were reportedly flown on the company's online store in Brazil, and the regulator there is about to take some action against the company. In response, Namaste has suspended its store's operations while taking corrective action.

The Brazilian market contributed 8% to Namaste's revenue for the 15 months to November 2018, and this market remains an important growth front to the company.

Generally, being on a national regulator's bad side isn't a good thing, and the situation could sometimes get worse in an emerging economy.

Foolish bottom line

Namaste is making a history of trouble, and the recent skirmishes with its former CEO Sean Dollinger are still fresh in the investor's notebook. Although a settlement and cease-fire arrangement were entered with the founding CEO after internal investigations incriminated him, equity investors have suffered the brunt through a tanking share price.

Management's focus on regulatory compliance and the ongoing strategic business review are welcome, but the exercises paint a hazy picture of the firm's corporate governance controls and procedures.

Contrarian investors may be tempted to buy the dip on the stock, and there are potential massive recovery gains here, but I would urge caution. Untimely auditor resignations and frequent auditor changes are serious red flags that may signal a high-risk client and paint a gloomy earnings outlook.

Beware the magnified investment risk!

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