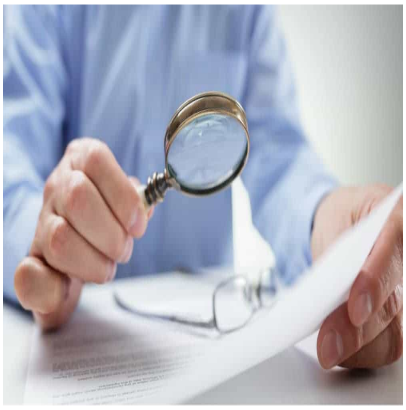

Down 80%, Can the “Amazon of Cannabis” Stock Ever Recover From Here?

Description

Investors in troubled e-commerce retailer of medical cannabis and accessories **Namaste Technologies** (TSXV:N) finally managed to have a glance at the company’s fiscal 2018 results aftermarket on Friday, May 31, a solid two months later than initially required. Then the stock tanked 18% on Monday to trade 80% lower than the 52-week highs seen in September last year.

The company was scheduled to file its annual results for the period ended November 30, 2018, by April 1 this year, but serious internal problems rocking the firm, including the resignation of an auditor, compelled the company to seek a management cease-trade order as they delayed releasing the results.

The company finally managed to file the overdue financial reports, including quarterly results for the three months to February 28, 2019.

Comparability challenges

The full-year results cover an unusual 15-month period, as Namaste changed its financial year end from August 31 to November 30 last year. The reported 116% revenue growth reported for the year doesn’t move investors that much.

Further, there were new acquisitions during the year, including Findify and two new business units that began operations in 2018. Annual performance metrics aren’t directly comparable on an organic-growth basis unless one reverts back to filed quarterly results and makes adjustments.

To add more, there’s a notable seasonality in the company’s quarterly results, as sales surge in November, especially during the Black Friday to Cyber Monday weekend, and the company’s recent annual financials had two such November weekends, one in 2017 and another in 2018.

That said, there was some reason to momentarily celebrate, as the November 2018 quarterly revenue of $5.2 million was 6% higher than that recorded for the same quarter in 2017. That was an impressive show considering that the 2017 reading included revenue from a significant sales generator, the U.S.

subsidiary Dollinger U.S., which was disposed of early in 2018.

The good news ends there, however, as the company recorded a shrinking gross margin to 18% from 32% a year ago, as higher freight costs and lower price mark-ups on hardware ate deep into gross profits while selling, general, and administration (SG&A) expenses ballooned and the bottom line suffered worse.

Is there any recovery hope on the stock?

There could be some new hope for a possible earnings recovery if the latest quarterly results to February 28, 2019, are to be seriously considered.

Although February quarterly sales were 12% weaker than those for the November 2018 quarter, the seasonality mentioned above could explain much of that sequential decline.

They are still very small operating segments, but sales at CannMart grew 89% sequentially. The Findify segment, a leading e-commerce artificial intelligence and machine learning company with over 1,200 customers in over 60 countries, registered double-digit growth over the three months. CannMart received its “sales only” licence in September last year.

There was a welcome sequential recovery in the gross margin during the February quarter to 21.5% from 18% in a prior quarter. More growth is required as lower price mark-ups on inventory and higher freight costs have weakened the earning power of assets.

I find the slight improvement in adjusted EBITDA from a loss of $6.2 million in a previous quarter to a $5 million loss as SG&A expenses declined sequentially, but operations are still a long way from operating profitability,

That said, February 2019 quarterly sales were still 18% lower than in a comparable quarter in 2018. We can still blame that decline on the disposed U.S. subsidiary, but there were some concerning weaknesses in other key markets, too.

Australia, one of the two largest geographical markets, recorded a 12% year-over-year decline in quarterly sales. the United Kingdom, now the largest contributor to revenue, recorded a 20% year-over-year slump.

Even if we totally exclude the United States market from revenue computations, we find that territorial sales were still marginally weaker than comparable figures in 2018, even after France, Canada, Brazil and New Zealand markets reported some growth.

The company still had a healthy cash position by February, but given the massive bleeding in operating cash flows, double-digit revenue growth rates are required to sustain the business; otherwise, management may be forced to come to the market for new financing during a very unfavourable period when the share price is heavily beaten down.

Foolish bottom line

Namaste Technologies stock is down, but its $69 million cash position could allow management some time to work on recovery efforts before begging the market for new equity. I also find the prospect of a strategic buyer for the company as a potential quick return generator on the ticker.

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Date
2025/09/09
Date Created
2019/06/04
Author
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