1 Dirt-Cheap Marijuana Stock: Is it a Buy?

Description

Few industries present a growth potential as significant as that of the marijuana sector, but if there is one that does, it is the e-commerce industry. However, what happens when a company tries to combine both of these markets into one? That is precisely what **Namaste Technologies** (TSXV:N) — a Toronto-based tech company — is trying to do. While the prospect seems enticing, I believe Namaste is too risky a bet to make at the moment; here is why.

A brilliant strategy?

Since 2005, Namaste has focused on bridging the gap between cannabis-related products and technology. In many ways, the company's mission statement is brilliant, considering how much we rely on various technological innovations in today's world, be it to order food or to order a cab. Namaste's cannabis-focused e-commerce websites (which span over 20 countries) and smartphone apps attract hundreds of thousands of monthly visits and serve well over a million customers.

But Namaste does more than just sell cannabis-related products. The firm's app — NamasteMD — matches customers with healthcare providers, recommends products based on needs, etc. In short, Namaste is planning to become the one-stop shop for various products and services, creating a self-contained network, which can serve every customer's needs. Further, the company has secured various supply agreements, although these pale in comparison with the giants of the marijuana sector.

Reasons to worry

Namaste's business model seems like a great idea. The cannabis sector will continue to grow worldwide, and the convenience provided by technology is a great way of making cannabis-related products more accessible to consumers, many of whom likely wouldn't have considered them otherwise. However, there are a few areas of concern.

First, Namaste is spending a considerable amount of money to develop the technology necessary to sustain its business model. This is having a negative impact on its earnings, which are currently negative. While many pot companies are in the same boat, it is still worth mentioning. Second, the largest pot companies can likely replicate many of Namaste's platforms, at least to some extent.

The best-known e-commerce platforms became successful because they managed to build a strong competitive advantage, be it a strong network of loyal customers, unique service offerings, high switching costs, brand-name recognition, etc. Namaste hardly possesses any of these characteristics yet, and many in the pot industry have far larger distribution channels, which they can leverage to their advantage to attract increasingly more customers.

Finally, Namaste has had to deal with some drama over the past few months. Back in October of last year, the famous (or infamous) investment newsletter Citron Research came out with some scathing allegations about the company or, more precisely, about its then CEO Sean Dollinger. According to Citron Research, Dollinger had failed to disclose the details of a deal (or that a deal was made at all) between himself and another Namaste executive, David Hughes.

A special committee appointed to investigate the allegations found that they were true: Dollinger had sold his company — Dollinger Enterprises U.S. — to David Hughes without disclosing the details of the insider transaction. The board fired Dellinger and replaced him with former chief product officer Meni Morim. While the drama seems to have been dealt with, failures in stewardship are never a good look for a publicly traded company.

Should you buy?

Namaste had a stellar month in May. Unlike many of its peers, the firm's share price actually increased by a notable margin (about 16%). Despite this performance, the company's stock is still priced at under a dollar, which is a far cry from its all-time high of about $3.50 (reached late last year). Some might argue that at this price, there is hardly any downside in investing in Namaste. But until the pot/tech company shows it can build a sustainable moat, I think investors had better keep their distances.

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