



Why This Micro Cap Cannabis Stock Might Be a Winner

Description

Fire & Flower Holdings (TSX:FAF) is a micro-cap Canada-based cannabis company. The company is valued at \$152 million and was publicly listed on August 7, 2019. FAF is a cannabis retailer looking to increase market share.

In the fiscal first quarter of 2019 (ended in May), FAF reported revenue of \$9.58 million and a net loss of \$17.05 million. So why am I optimistic about this newly listed unprofitable cannabis company?

Strategic investment by Alimentation Couche-Tard

Fire & Flower has set its sights on expanding in the global cannabis market. Its partnership with **Alimentation Couche-Tard (TSX:ATD.B)** will help expansion efforts. In July 2019, ATD invested \$26 million by issuing unsecured debentures for a 9.9% ownership stake in the company.

ATB is one of the largest retailers in Canada, with over 16,000 stores across 25 countries. FAF's investor presentation states, "The strategic investment would result in Couche-Tard having the right to obtain a controlling interest in Fire & Flower and investing more than \$380 million of growth capital for global expansion, if fully exercised."

This investment will help FAF gain traction in international markets and focus on creating a vibrant retail store experience. FAF will be able to leverage ATD's international exposure to drive sales in these markets.

Opportunity to create a retail brand

Fire & Flower has realized that the Canadian consumer does not have a product brand preference for cannabis products. This allows FAF to create a unique retail brand, as regulatory issues make it difficult for marijuana manufacturers to build a direct relationship with consumers.

FAF is focusing exclusively on the cannabis retail channel. It occupies a competitive market position

and has partnered with various manufacturers, including **Canopy Growth**, **MedMen**, and **Westleaf**.

At the end of July, Fire & Flower had 24 licensed cannabis stores. It plans to increase store count to 45 by the end of fiscal 2019 with the aim of becoming the most recognizable independent retail store and is targeting a market share of 15%. FAF has forecast to have a total of 85 retail stores by the end of January 2021.

FAF aims for profitability with high growth

Fire & Flower seeks to be a profitable cannabis retailer. Analysts expect the company to post adjusted earnings per share of \$0.02 in fiscal 2019. Its earnings are estimated to grow by a whopping 600% to \$0.14 in fiscal 2020.

With the expansion of FAF's retail footprint, its sales are estimated to rise from \$49.8 million in 2019 to \$132 million in 2020, a robust growth rate of 165%. The company's revenue in the trailing 12-month period is \$22.5 million.

The stock is trading at a forward P/E multiple of nine, which makes it an incredibly cheap investment given the company's growth rates. FAF is valued at just three times its 2019 sales — a bargain considering peer cannabis companies.

Yes, FAF is a retailer and not a manufacturer and will find it difficult to increase operating leverage compared to marijuana producers. But it's investing heavily in expansion and has a [great leadership team](#) to help meet its financial and operational goals.

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