Namaste Technologies (TSXV:N) Stock Doubles in 3 Weeks! Is There Further Upside?

Description

Online cannabis retailer **Namaste Technologies's** (TSXV:N) stock price has apparently doubled in the first three weeks of 2020 after a strong 23% surge on Wednesday raised the year-to-date return to 106% at end of day. This all happened without any company-specific news on the day.

This is a strong recovery since trade in the company's shares touched a 52-week low of $0.26 late December last year.

Stock in strong recovery mode

Namaste's share price took a strong beating over the past year in the aftermath of ugly scenes, including the ousting its CEO, an abrupt auditor resignation, and a subsequent delay in filing of financial statements, after which the company reported declining revenues over three consecutive quarters.

The closure of operations in Brazil by March 2019, among other segment specific reasons for revenue declines at a time when operating expenses had increased, was indeed a serious concern for investors.

That said, the company's subsequent news releases since its last earnings report in October last year were encouraging and could have laid foundations for renewed investor interest this January.

The company could soon report strong revenue growth after it broke into the budding recreational marijuana market this month with sales of pre-rolled cannabis joints. The first provincial order from British Columbia could be the first of many and the subsequent provincial agreements in Ontario and Saskatchewan could boost sales going forward, together with newly licensed cannabis oil products.

The big announcement in January was the recent licensing of Choklat, an investee that plans to produce cannabis-infused chocolates, drinks, and sugar. This marks Namaste's entry into the nascent cannabis edibles market.

"Choklat is one of the first food processors in Canada to receive its processing licence from Health Canada and we expect their products to be on shelves in March," said Namaste's CEO while commenting on the chocolate manufacturer's licensing.

There's indeed some new hopes for revenue growth.

I'm positive on the company's diversification from mainly a medical cannabis target market into the recreational consumer space through pre-rolls, and this could bring new patrons to CannMart stores. The recent expansion of its artificial intelligence segment Findify into new market territories with a new pricing model could be encouraging for margin growth, too.

One more thing: the company's retail business enjoys a very good sales boost during the Black Friday and Cyber Monday weekend, and this will be reflected in its upcoming report. The next earnings installment could potentially mark a permanent reversal in the revenue trend for long term growth.

That said, I still have a few reservations about this growth stock.

Potential risks

The company saw its online sales orders at its vaporizers segments fall due to lower web traffic during the August quarter. If this trend persists, there could be some trouble to the growth story, but the strong performance in Australia is encouraging. Negative publicity for vaporizers as well as potential bars on cannabis vapes in select Canadian markets is also of a serious concern for segment revenue growth.

Liquidity could be an issue, too.

The company incurred $11 million in selling, general, and administrative expenses during the third quarter against revenues of $3.8 million, and $27.7 million was used in operations during the same quarter, yet only $49.1 million was remaining in the bank accounts. Although general expenses included one-time costs relating to settled investor lawsuits, the company is still far from a cash flow breakeven point.

Further, revenue cannibalization from recreational marijuana is still a real threat to medical sales, especially if price competition continues to intensify in the consumer market as the likes of **HEXO** push their low-priced, high-quality offerings to a budget-conscious market. Patients may be tempted to switch over, and the currently high-priced medical offerings may need be reviewed for competitiveness.

Investor takeaway

Namaste's entry into the recreational marijuana market as well as its expected launch of new cannabis edibles products brings new growth opportunities for its businesses, but significant risks remain on its operations and balance sheet, making the stock a speculative buy today.

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