Is Namaste Technologies' Stock a Buy After Reporting Record Quarterly Revenue?

### Description



It once aspired to be "the **Amazon** of cannabis," but e-commerce focused marijuana stock **Namaste Technologies** (TSXV:N) has taken on a manufacturing-based growth strategy that's beginning to yield impressive results. The company has shaken off its drama-filled past. Operations have returned to strong sequential quarterly sales growth. Actually, the company reported record quarterly revenue in last week's earnings release. Should Namaste's stock be on your buy list today?

## Namaste reports strong quarterly sales growth

Namaste Technologies predominantly sells medical cannabis in Canada and cannabis accessories like vaporizers globally via e-commerce websites. It also has a growing AI-powered e-commerce application that's gaining acceptance in the global retail space.

The company shares common quarter-ending dates with a few Canadian marijuana peers. Two such peers released their earnings results prior to Namaste's report on July 24 — and both disappointed. The **Valens Company** (formerly Valens Groworks) and **Organigram** reported double-digit revenue declines during the quarter to May 31 this year.

However, Namaste's net sales grew by a strong 31% sequentially to a record of $6.9 million during the same quarter. The e-commerce retailer's latest sales are 74% higher than what was reported for the same period last year.

There's a strong positive growth momentum in the company's top-line right now. The company has reported three consecutive quarters of positive revenue growth so far. Growth momentum could sustain into the next year if subsidiary CannMart Labs receives cannabis extracts production licenses this year.

Canada sales have grown by 338% year-over-year from just 19% of quarterly revenue by May 2019. They constitute nearly half the company's total net sales during the last quarter. Despite significant sales declines in the “other” geographic segment globally, the United States, Australia, and the U.K. markets remain vibrant international sales growth drivers to compensate for the losses suffered after Brazilian operations were shut down in 2019.

While revenue growth is good, long-term investors need the conviction that the company has potential to deliver desired profits to shareholders. This is where things become complicated.

## An improving profitability profile?

Namaste’s quarterly losses narrowed from $29.7 million during the fourth quarter of last year to “just” $4.8 million in the second quarter of this year.

Actually, the company has reported two successive quarters of declining quarterly net losses so far, and last quarter’s loss was the lowest reported in eight consecutive quarterly periods.

Improvements in the bottom line are in part due to resolutions and settlements of damaging legal and legacy issues over the past year. Revenue growth will play a critical role to absorb operating expenses going forward. This should be encouraging.

That said, I am very much concerned with the company’s significantly shrinking gross margins.



Quarterly gross margins have contracted over three successive quarters from 21% of revenue by August last year to as low as 9% during the past quarter.

Honestly, it’s hard to anticipate cash flow positive operations from such extremely low and unhealthy gross margins. The company is far from recouping operating expenses after paying for inventory purchases and production expenses.

Perhaps cannabis derivatives could provide better margins. However, industry giant **Canopy Growth** had trouble moving gel-capsules and premium oil products in Canada. Marijuana consumers are still inclined to their old-fashioned high potency traditional dried leaf.

Further, the medical cannabis segment of the Canadian could keep experiencing revenue cannibalization as consumer pot prices continue going down. Therefore, CannMart may not enjoy better margins in this saturated and increasingly price-competitive market.

## Know this before buying Namaste’s stock

Cash burn is still a significant problem at this young company.

About $20.4 million in cash balances remains on the balance sheet after $6.6 million was spent during the past quarter. The cash burn rate has declined with narrowing losses. However, if the company continues to use as much cash in operations, the bank balance could be depleted within the next year.

Namaste may need to raise new equity at discounted share prices within the next few months. Operations may not have shown evidence of positive earnings by then, and the financing round could be significantly dilutive to current shareholders.

The beaten-down stock remains a speculative buy that may not deliver anticipated gains.

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