Tiny Cannabis Firm Reports a 158% Revenue Growth: Buy the Pot Stock?

Description

Cannabis retailer **Fire & Flower Holdings** (TSX:FAF) is among a few Canadian pot firms that still deserves to maintain the "marijuana growth stock" label. Fire & Flower reported an impressive 158% year-over-year revenue growth for fiscal second-quarter 2020 in a financial report released on Tuesday. Can the tiny $141 million marijuana firm deliver on a growth mandate that market leaders like **Canopy Growth** and **Aurora Cannabis** have faltered on?

Fire & Flower is a fired-up TSX marijuana stock

Quarterly revenue grew by 19% sequentially to $28.6 million during the 13 weeks to August 1, 2020. This was a strong 158% year-over-year growth in the top line, up from $11 million invoiced during the same period last year.

The main driver behind FAF's triple-digit revenue growth is its growing portfolio of retail outlets. The company more than doubled its operating store count from 20 stores at the beginning of August last year to 50 operating outlets by August 1, 2020.

Same-store sales for the quarter were flat. Gross margins have remained resilient at 34.8%, although slightly lower than the 36.5% reported during the same period last year. Impressively, quarterly adjusted EBITDA losses have narrowed to just $0.3 million. This compares very well against a $4.8 million loss recorded last year. The company has benefited from an optimized retail store network.

However, a strong 69% recovery surge in FAF's stock price triggered a huge $18 million loss on derivative fair-value adjustments. This is a non-operating and non-cash loss driver that I wouldn't worry too much about at this high-growth stage of the business.

Will FAF maintain high-growth momentum?

An ongoing COVID-19 pandemic is a significant drag to management's efforts. The health crisis negatively impacted continued store count growth, as construction progress slowed down, and some provincial governments suspended or slowed down new licensing activities.

Therefore, the company's earlier target to have 78 retail stores operating by early next year could be missed. Well, not everything goes according to our human plans and timelines.

However, analyst growth estimates remain high. The pandemic might have delayed goal achievement, but progress is still being made as the economy reopens.

Management is so proud of the company's digital development. Hifyre, a proprietary omnichannel data-driven technology system powers the business line. The technology supports advanced retail operations by capturing user behaviour and applying predictive analytics.

The Hifyre digital retail and analytics platform is expected to provide competitive advantages in retail and offer an international growth platform.

It's important to note that Fire & Flower isn't the only cannabis play that claims to have superior data analytics capabilities. **Namaste Technologies**, another pot retailer, has a similar AI-based product producing almost the same revenue run-rate as Hifyre. Interestingly, **Aphria** is a notable pot player which claims superiority in marijuana consumer behaviour analytics. The good thing is, Aphria's success as a producer could be a retailer's success, too.

Watch operating cash flow

I liked the fact that Fire and Flower's operating cash flow for the quarter was positive at $5.5 million.

It's still early to celebrate though. The achievement was aided by delayed payments of payables, which isn't a sustainable source of positive cash flow generation. However, the company changed its inventory acquisition terms. It's now enjoying supplier credit terms instead of paying upfront deposits. This is a sustainable change that frees up significant operating cash flow, enabling the company to service debt obligations and finance future growth expenditures.

Time to buy?

FAF is a fast-growing marijuana retailer whose stock has made a strong recovery from March lows this year. The company has a strategic partner and strong financier in **Alimentation Couche-Tard**, a relationship that helps with access growth financing.

Although there has been a delay to earlier targets for positive adjusted EBITDA this year due to a pandemic, the company remains on track to start generating positive operating earnings and free cash flow soon. If one can stomach high volatility, then FAF stock is a worthy addition to a TFSA growth account.

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