Here's Why Facedrive (TSXV:FD) Remains a Risky Bet for Investors

Description

Millennials invest in anything that says "eco-friendly" today. They want to believe that they are contributing to something good in the world. However, any business, no matter how eco-friendly, needs to be built on a strong business model.

Facedrive (TSXV:FD) is a ride-sharing app went public on the basis of letting its customers choose an electric or hybrid vehicle option for their transportation. The markets loved this revolutionary company so much that they lapped up its stock, and the stock has zoomed over 500% since its IPO.

Goliath beats David

Facedrive competes with giants such as **Uber** and **Lyft**, two companies that have significantly underperformed the broader markets since they went public in 2019. The ride-hailing business requires massive cash reserves, as companies need to pump in billions of dollars before they achieve massive scale and turn profitable.

So, Facedrive's investors need to brace for multiple rounds of equity financing that will dilute shareholder wealth in the next few years.

Now, Uber announced on September 8 that it would invest $800 million into ensuring that its whole fleet would be electric by 2030. Fellow Fool Vishesh Raisinghani told us that the company rolled out a new feature called Uber Green that customers could use to choose an electric or hybrid vehicle for their transport by paying $1 extra.

Uber is launching this feature in 15 cities in Canada and the U.S., and the company says that this feature will be available in 65 countries by the end of 2020. So much for Facedrive's unique proposition!

Facedrive eyes expansion

If Facedrive would have confined itself to ride sharing, maybe I wouldn't be so negative on the company. For some inexplicable reason, Facedrive has ventured into areas that have no connection with its core business.

Here is what the company said: “Facedrive Marketplace offers curated merchandise created from sustainably sourced materials. Facedrive Foods offers contactless deliveries of a wide variety of foods with the focus on healthy foods right to consumers’ doorsteps. Facedrive Health develops innovative technological solutions to the most acute health challenges of the day.”

I am all for diversification, but only after there is a “cow” business that you can milk to feed other growing verticals. If you start four verticals at one shot when none of your businesses has a steady source of revenue, it raises questions.

Where’s the cash?

It really doesn’t help Facedrive’s case that it has between $3 million to $10 million of cash left on its books. To give you some context, Uber has $10.8 billion of cash to help it through tough times. Facedrive also released a statement on September 29 where it has extended the filing of Q2 results, which might not be good news.

Facedrive said, “The company confirms that, other than as previously disclosed, there have been no material business developments since August 28, 2020, the date of the news release that was issued by the company regarding the Temporary Relief Measures. The company confirms that it intends to file its interim financial statements and MD&A on or before October 13, 2020.”

Stay away from Facedrive stock, unless there is concrete news on the company and a clear idea of what business it wants to focus on.

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