Greenlane Renewables Stock Could 3x Your Money, but Buyer Beware

Description

It's an understatement to say that the market downturn has been unkind to **Greenlane Renewables** (TSX:GRN) stock.

Shares of the renewable natural gas company have fallen 75% since hitting their high of about $3 in 2021; they trade for about $0.74 per share today.

Yet according to Yahoo Finance, analysts have an average 12-month price target of $2.52 per share for this small-cap stock, which suggests Greenlane Renewables is undervalued by more than 70%. In other words, the shares could triple investors' money from current levels.

Greenlane Renewables works with gas utilities and developers to convert biogas into a source of clean energy. So the catalyst could be that investors take renewed interest in Greenlane Renewables as an ESG investment.

Is buying today worth the risk of even more downside? Let's take a look at the company's recent results.

Greenlane Renewables's 2021 results

Back in 2021, when the stock was soaring, Greenlane Renewables reported substantial revenue growth of 146%, to $55.4 million. Gross profit was $12.9 million, resulting in a gross margin of 23.3%. Unfortunately, the company was operating at a loss after accounting for operating expenses. Adjusted EBITDA, a good proxy for cash flow, came in at $1.1 million.

Q1 2022 results

More recently, Greenlane's first-quarter revenue grew 33% year over year, to $16.3 million. Although this is a slowdown from the breakneck growth in 2021, it's still positive to see continued demand for its products. Profit was $3.6 million, which resulted in a gross margin of 21.8%. The company still posted a loss, particularly because of rapidly rising operating expenses, such as general and administration and share-based compensation. These expenses increased faster than the year-over-year revenue growth.

Greenlane's balance sheet

What's fortunate for the company is that it raised net proceeds of $24.5 million in an equity offering in January 2021 at $2.17 per share (it would be a bad idea to raise capital in today's market environment). The money has been primarily used for growth initiatives and the development and investment of renewable natural gas projects.

At the end of Q1 2022, Greenlane Renewables's balance sheet was in good standing. Its current ratio was 2.12 times. Its current assets include $23.1 million of cash and cash equivalents that provide financial flexibility. The debt-to-assets ratio was 35%, and its debt-to-equity ratio was 47%. So, it's not overly leveraged.

The Foolish investor takeaway

Greenlane Renewables isn't the only small-cap stock that's taken a beating in the market. Many other growth stocks have also been brutally sold off. So even though analysts think Greenlane could appreciate about 241% from current prices — and that sounds like a tempting investment opportunity! — it's crucial that investors in Greenlane also buy other stocks, too. You'll want to reduce your exposure to risk by diversifying your investments across *many* stocks that can potentially do well over the the next three, five, to 10 years.

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