This Little Known Marijuana Stock Could Be a Winner in 2019

Description

OrganiGram Holdings Inc (TSX:OGI) isn't the most renowned marijuana stock in the world. In last year's cannabis legalization mania, it received little attention compared to bigger companies like **Canopy Growth Corp** and **Aurora Cannabis Inc.** But the lack of coverage may have been undeserved, because while OrganiGram is not as large as some of its peers, it is actually one of the most profitable and fastest-growing stocks in the marijuana sector. And thanks to the scant attention it has received, its shares are actually fairly cheap.

There are three main reasons why I think OrganiGram could be an unexpected riser in 2019. None of these reasons individually make the stock a buy, but taken as a whole, they make a strong case for considering this small cap weed company in 2019. We can start with growth.

Impressive growth

In its fiscal 2018 report, OrganiGram posted $12.4 million in sales. That may not seem like a massive number compared to the biggest marijuana stocks out there, but it represents 131% growth over 2017. In Q4, sales were up 74% compared to a year before. This is heady growth. But then again, with Aurora posting year-over-year growth as high as 223%, it's not special for the cannabis industry. What does make it special is the fact that with this growth came profits–something not frequently seen in the cannabis industry.

Ultra-profitable

In Q4 2018, OrganiGram posted $18 million in net income, compared to a $2 million loss in the same quarter a year before. Because net income exceeded sales for the quarter, we can deduce that most of this income is not from operations but from financing activities. On an annual basis, the company earned $22 million in 2018 compared to a $10 million loss in 2017. These figures make OrganiGram one of the few cannabis companies that's generating positive earnings for shareholders. But that's not the end of the story.

Incredibly cheap

Based on its earnings and share price, OrganiGram is one of the cheapest marijuana stocks around. In an industry where some stocks trade at over 130 times sales, a double-digit P/E ratio stands out. And that OrganiGram has: with diluted EPS of $0.16 per share in the past 12 months, OrganiGram has a trailing P/E ratio of just 29. That's not exactly dirt cheap, but when you put that 131% annual growth rate into the equation, it starts to look very appetizing.

Foolish takeaway

As losses grow ever larger at some of the bigger marijuana companies, smaller cap stocks in the sector are beginning to look more and more appealing. It makes sense, too: the bigger players are the ones that have been spending their money on questionable acquisitions, while smaller cap stocks have focused on organically growing operations. There are some commentators who have said that the cannabis industry will begin to rapidly segregate between a handful of winners and a lot of losers. If that's the case, then the smaller cap stocks that keep their balance sheets healthy may come out on top.

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