Why Is This Cannabis Stock Up 62%?

Description

Despite having a share price of just $0.23 in 2015, **OrganiGram Holdings Inc** (TSXV:OGI) stock has quickly risen to a market cap of more than $1.3 billion. Since the start of 2019, shares are up another 62%.

Now with a valuation that rivals other notable pot stocks like **Green Organic Dutchman Holdings Ltd** (TSX:TGOD) and **Hexo Corp** (TSX:HEXO), why do shares seem to consistently move higher by large jumps every month? Is the latest 62% rise due to improving fundamentals or pure hype?

The optimism is warranted

As Fool contributor Keith Speights wrote in September, “OrganiGram hasn’t generated as much buzz as bigger Canadian marijuana stocks. But that might not be a bad thing.”

Since that article, shares have popped more than 100%. It seems that OrganiGram is finally getting the hype that nearly every other cannabis-related stock has received.

As with its competitors, OrganiGram is promoting its strong growth opportunities across Canada, as well as its leading cost position. Those are advantages that are found in every investor presentation across the entire industry. OrganiGram seems to be able to back the claims, however.

As a cannabis producer, OrganiGram is focused on ramping and expanding its three-level, indoor growing facility located in New Brunswick. By the end of 2019, production should hit 113,000 kilograms on an annualized basis, up from 36,000 kilograms at the start of the year. Green Organic Dutchman, by comparison, will only bring 14,000 kilograms of cannabis online this year.

OrganiGram is also one of only three companies with licensing agreements in all ten provinces. Management has been putting the pieces into place to capitalize on international growth opportunities as well.

In total, OrganiGram looks like an ideal way to capitalize on the cannabis boom. But what about the valuation?

Now it gets interesting

With less name recognition, it's reasonable to be wary of OrganiGram's $1.3 billion valuation, especially as better-known peers like Green Organic Dutchman and Hexo trade in a similar range. Looking at the fundamentals, however, OrganiGram is a relative bargain.

First, the company has enough cash on hand to fund its expansion plans this year, so dilution won't be as necessary. Second, shares are simply a steal versus the rest of the cannabis industry.

Based on 2019 consensus estimates, the average cannabis stock trades at 226x EBITDA. OrganiGram stock trades at just 22x this year's EBITDA.

Looking further ahead, the steep valuation gap remains. The average peer now trades at 53x 2020 EBITDA while OrganiGram is valued at just 14x EBITDA.

With a skilled management team, solid balance sheet, and reasonable growth targets, it's tough to justify such a discounted valuation.

Your best bet?

If the cannabis market continues to take off, OrganiGram stock looks like a steal compared to competitors like Green Organic Dutchman and Hexo. Even if industry hype recedes, OrganiGram's valuation has less room to contract.

Today, OrganiGram appears like a great way to play the cannabis market, even after its recent 62% run.

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