Should You Buy Shares of This Top Cannabis Stock After Earnings?

### Description

**OrganiGram Holdings Inc** (TSXV:OGI) (NASDAQ:OGI) received some positive press recently. Bruce Linton, former CEO and co-founder of **Canopy Growth Corp** (TSX:WEED) (NYSE:CGC), picked OrganiGram as one of the top stock picks in the marijuana sector.



This led to a bit of a spike in the firm's share value. As interesting as this nod of approval was, a much more important indicator of OrganiGram's position was revealed this week: the company released its Q3 2019 financial results. Let's see how the Moncton-based pot grower performed.

## Revenues fall short of estimates

OrganiGram posted strong year-over-year revenue growth. The firm increased its top line by 784% compared to the corresponding period of the previous fiscal year.

However, investors are largely yawning at such year-over-year increases; after all, recreational uses of marijuana were only legalized in October of last year.

What's more interesting is how OrganiGram's revenues progressed on a sequential basis, and on that front, the company has little to boast about. OrganiGram's revenues decreased slightly — by about 9% — compared to Q2 2019. The firm's sales also slightly missed consensus analyst estimates.

This decrease is perhaps a warning sign to investors. Not only did OrganiGram sell less kilograms of cannabis during Q3 compared to Q2 (4,615 kilograms down from 4,987 kilograms), but the company also had a slightly lower average selling price ($5.36 down from $5.40).

Many other cannabis companies showed a similar decrease in both the amount of cannabis sold and their average selling prices.

Analysts have been warning of a looming supply glut that would drag down prices in the marijuana market for some time. Perhaps this supply glut is already starting to rear its ugly head.

## OrganiGram experiment backfires

In a surprising twist, OrganiGram's cash and all-in costs of cultivation soared by 46% and 35%, respectively. This was due to what the firm called a "change in growing protocol." OrganiGram attempted to improve its margins by tweaking the way in which it grows cannabis.

According to the CEO of the company, "In the early experiment, we had really positive results, then we went to a broader group and it was variable by strain and the results were inconsistent. That had a significant impact on yield." In other words, the experiment ended up having the exact opposite effect.

## Red ink on the bottom line

OrganiGram posted positive earnings before taxes, expenses, depreciation and amortization (EBITDA) for the fourth consecutive quarter. However, the firm posted a net loss that was slightly worse than that of the previous quarter.

Note that OrganiGram had posted positive earnings for four straight quarters before Q2 2019, but these were largely due to net positive fair value adjustments. The company attributed this quarter's net loss in part to net negative changes to the company's fair value adjustments to biological assets and inventories.



## What's next?

OrganiGram expects to continue posting strong sales. In particular, the firm is betting on the upcoming legalization of various derivative cannabis products — such as edibles and cannabis infused drinks — to become major revenue sources.

Further, the company's phase 4 expansion project, which will increase target production capacity to 113,000 kilograms per year, is on pace to be completed by the end of this year. All things considered, OrganiGram Holdings still looks to be well positioned within the cannabis market.

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