



## Why Green Organic Dutchman's (TGOD) Stock Price Rose 14% in August

### Description

**Green Organic Dutchman Holdings** (TSX:TGOD) is one of the most promising pot stocks on the market, but its valuation has often struggled due to its small size. Valued at only \$750 million, Green Organic only gets a fraction of the attention that bigger cannabis companies get. **Canopy Growth** and **Cronos Group**, for example, are both worth *several billions*.

The value disconnect started to self-correct in August, with Green Organic shares rising in value by 14%. The **S&P/TSX Composite Index** was roughly flat last month. If the valuation gap continues to close, shares could *double* over the next 12 months. Here's how to [take advantage](#).

### Here's what happened

It was an eventful August given the company reported second-quarter earnings on August 13. Revenue of \$2.9 million missed consensus estimates by \$1.8 million. GAAP EPS was -\$0.06, roughly in line with expectations.

Critically, it appears as if the company is finally on the verge of commercial viability. "Last quarter, I mentioned that we'd be entering in the recreational market in Q4 of this year," noted CEO Brian Athaide. "Given the success of our growing operations in our original Phase 1 building, we actually expect to complete our first shipment to the Ontario Cannabis Store this week ahead of schedule."

The biggest news, however, actually came on September 4 when **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) decided to liquidate the remainder of its 10.5% stake in Green Organic. While Aurora still owns warrants to purchase 16.7 million Green Organic shares, it appears as if it will no longer be incentivized to help the company succeed.

Recently, Aurora terminated its right to purchase 20% of Green Organic's pot production. Aurora, potentially Green Organic's biggest customer, will instead source organic cannabis from internally owned Whistler Medical.

## What to expect

Green Organic's rise in August was completely wiped out following the news from Aurora. Shares now trade at just 3.6 times 2020 sales. Aurora, for comparison, trades at 12 times forward sales. The valuation discount is warranted, however, given the extreme uncertainty facing the company. If it can't replace Aurora with another customer, growth plans could be in trouble.

When the deal was first established last January, both companies were excited.

"This strategic partnership between Aurora and TGOD is mutually beneficial in that it accelerates TGOD's market access and penetration through technology and services, as well as through access to capital and distribution channels, while providing Aurora with a significant, sustainable supply of premium organic cannabis and the opportunity to benefit from TGOD's commercial success," highlighted Aurora CEO Terry Booth. All of these benefits are now off the table.

Importantly, the deal cancellation doesn't necessarily reflect a bearish view on Green Organic. This January, Aurora purchased Whistler Medical for \$175 million and simply no longer needs to access Green Organic's output.

Still, there's no doubt that Green Organic's future is much murkier today than it was last month, but the cheap valuation could be a great way to make a contrarian bet. The company's Ancaster facility will soon reach its full capacity of 17,500 kilograms per year, while its Valleyfield project will ramp from 65,000 kilograms per year next quarter to 185,000 kilograms per year in 2021.

High production growth will still happen; it just depends on whether Green Organic can find a customer to buy its output. If the marijuana industry continues to boom, this may not be a problem. If the valuation gap closes even halfway, the stock would easily double, with much more upside possible over the long term. That's a big "if," however.

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