Is Green Organic Dutchman (TSX:TGOD) a Steal at $2?

Description

Green Organic Dutchman Holdings (TSX:TGOD) had a very bad month of September, declining around 40%. You know it's bad when **CannTrust**, a company that had its licence suspended, didn't have as big of a drop during the month. TGOD finished September at just over $2 a share, as it hit a new 52-week low.

Why have investors been down on the stock?

While investors as a whole haven't been very excited about cannabis stocks lately, TGOD's decline has been notably worse. And the reason it has done so much worse is that early on in the month, when the stock was trading around $3.50, we learned that **Aurora Cannabis** had sold its shares in TGOD at a price of just $3.

As a result, the sale flooded the market and created a huge sell-off of TGOD stock. Inevitably, what ends up happening then is that triggers even more selling, as technical indicators tell other investors to sell while stop-losses also cause more shares to be sold along the way.

It created a perfect storm for which there was no way for TGOD to pull itself out.

Has the stock become a cheap buy?

Despite the heavy selling, TGOD's stock hasn't been in oversold during the month. Its Relative Strength Index (RSI), which measures the stock's gains and losses over a 14-day period, was above 30 during the whole month of September and finished the month just above the mark. Once it falls below 30, the stock is considered to be oversold.

With the stock almost oversold and at a 52-week low, it could entice investors to buy the stock at what could be perceived as a cheap price. The problem is that for the amount of revenue that the company has generated, it's still trading at a hefty premium.

Over the last 12 months, TGOD has generated just over $7 million in sales. With a market cap of around $560 million, that means investors are paying close to 80 times sales. By comparison, **Canopy Growth** was trading at a price-to-sales ratio of 36 at the close of the month. It's hard to justify TGOD being at a more significant multiple than the top pot stock in the country.

And with the company consistently producing losses, it's hard to say that TGOD is any better than its peers in that regard.

How TGOD could rally

What could save the company is a strong quarter that shows either significant sales growth or TGOD getting close to breaking even. While the latter may seem like a long shot, the good news is that the company says that shipments it has sent to the Ontario Cannabis Store have had very good feedback, and that there's strong demand for the company's premium cannabis products. With TGOD finally ready to make a splash in the recreational market, it could be what it needs to pull itself out of this tailspin.

Ultimately, it'll come down to how strong the numbers look like. Until TGOD can demonstrate some sort of progress, it'll be hard to get investors excited about a stock that's been in a free fall. And it may take a couple of quarters before investors are able to see just how strong those numbers really are.

Bottom line

In short, no, TGOD is still not a good buy even at $2 a share. While the company claims it is seeing some positive results, investors need to be able to see that for themselves on the company's financials, and that's when we might see the stock finally rally.

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