Can Green Organic Dutchman (TGOD) Stock Double Your Money?

Description

Marijuana producer **Green Organic Dutchman's** (TSX:TGOD) stock is heavily beaten down, much worse than other cannabis names right now, and the company's shares could present a compelling buy to contrarian investors, but can we expect the price to double from these levels any time soon?

The block sale by strategic investor **Aurora Cannabis** of a significant remaining stack in an aftermarket trade with a syndicate of bankers during the first week of September evidently triggered the plunge in the TGOD stock price as other investor insecurities grew.

It can be argued that Aurora sold due to some potential cash problems, and it reasonably had to liquidate some positions in its investments portfolio to fund its cash-gobbling operations and expansion plans.

But given the later revelations that the Dutchman is begging for financial resources to complete its construction projects, and remembering that Aurora's ALPS team were the designers of the company's facilities, it could be possible that the strategic investor easily foresaw the impeding funding capacity problems and decided to leave before the worst happens.

That said, the above is an opinion that has the benefit of hindsight, but given the slower-than-previously-anticipated take-off of the Canadian recreational market, some investors had to discount TGOD's loss of a large customer, which had contracted to purchase a significant portion of the company's annual production.

The company isn't a dividend payer, so investment gains can only be realized from share price increases. The question whether the cannabis stock can double from today's levels probes a deep investigation into what could trigger a recovery in valuation going forward.

Can the share price double?

The company is very close to bringing its premium organic cannabis to market now more than ever as one facility is complete and its processing facility could be up and running in a month.

All grow rooms at Ancaster facility are complete and already licensed for sale, and a first significant harvest is expected during this quarter. The flagship facility is expected to join this first facility early next year, and management expects total production at 22,000 kilograms of high-margin product in 2020.

Supply agreements have already been secured in Alberta, British Columbia, and Ontario, and plans are already underway for cannabis-infused products to be launched in December while the company works on obtaining the an important European Good Manufacturing Practices (E.U.-GMP) licensing that will enable premium product exports to Europe probably in the next year.

Most noteworthy, management announced a revised strategy in October which focuses on cutting down on capital expenditures and budget rationalization with a target to generate positive operating cash flows by the second quarter of next year.

If a young Green Organic Dutchman can deliver positive cash flows within three quarters of commencing organic marijuana sales, and if the company's forays into European and Canadian hemp markets gain traction during the next year, it's reasonable to expect the investing public to warm up to the ticker and for the valuation to easily double from today's heavily discounted levels.

Issues to consider

The company has run into funding problems, and it's highly uncertain if it will be able to find the $70 million to $80 million in financing required for the new strategic plan to be implemented.

Bankers and credit firms haven't been so keen to extend "reasonably priced" loans to the company at this stage, and this is understandable given the current bearish sentiment on the pot industry and the fact that the company is still a start-up whose organic marijuana business model hasn't been tried and tested at the planned scale yet.

What if financing can't be obtained? Things could go wrong and some assets may need be sold in a down market, and that's a scary picture to envision.

Foolish bottom line

Achieving positive operating cash flows early next could be a huge achievement for the young industry player, which could allow it to internally fund growth plans and this could sustain a strong valuation recovery on its shares. The stock could double.

That said, some significant capital is going to lie idle, as the company has decided to complete its growth projects in phases going forward, so investors have to adjust downwards the projected growth prospects and operational size of the company since its suspending growth projects.

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