Better Cannabis Buy: Green Organic Dutchman (TSX:TGOD) vs. OrganiGram (TSX:OGI)

Description

Cannabis stocks continue to remain volatile, as we head into the last two months of 2019. Investors and analysts were upbeat about the strong demand for cannabis products after marijuana was legalized for recreational use last October.

Further, the Cannabis 2.0 was supposed to drive stocks to their previous highs, if not more. Instead, it seems like analysts have grossly overestimated demand, and then there's cannibalization from Canada's illegal cannabis market. Further, several companies are grappling with regulatory and funding issues.

The recent vaping scandal did not help and dragged stocks significantly lower. Here, we'll look at two beaten-down stocks to see which is a better buy at the current price. Does the recent market correction provide an opportunity for investors?

The stocks in focus are **The Green Organic Dutchman** (TSX:TGOD) and **OrganiGram Holdings** (TSX:OGI)

Revenue growth

In the last few days, several analysts have revised their sales forecasts lower recently, driven by the tepid quarterly results of cannabis companies.

Analysts expect TGOD to grow sales by 1,304% to $26.38 million in 2019, 572.1% to $177.29 million in 2020, and by 145% to $434 million in fiscal 2022.

Comparatively, they estimate OGI to grow sales by 477.4% to $71.76 million in 2019, 110.6% to $151.16 million in 2020, and by 88% to $284 million in fiscal 2022.

TGOD posted sales of $1.88 million in 2018, while this figure for OGI stood at $12.43 million. But bythe end of 2020, TGOD is expected to overtake OGI in revenue.

Profit margin

Several cannabis stocks are still posting an adjusted loss. However, with strong revenue growth, investors can expect the profit margins to rise at a significant pace. Analysts expect TGOD to be EBITDA positive in 2020. They estimate its EBITDA to improve from -$43.5 million in 2018 to $21.3 million in 2020 and $98.7 million in 2021.

OGI, however, is already posting an adjusted profit. Analysts expect OGI's EBITDA to rise from -$6.07 million in 2018 to $36.6 million in 2019, $76 million in 2020, and $109 million in 2021.

In 2021, investors can expect an EBITDA margin of 22.7% for TGOD, while the same for OGI is estimated at a healthy 38.9%.

Valuation

TGOD is valued at $263 million (in terms of market cap) or 10 times forward sales. The company is debt-free and has a price-to-book ratio of 0.66.

OGI is valued at $687.1 million (in terms of market cap), or 9.6 times forward sales. OGI is also debt-free and has a price-to-book ratio of two.

TGOD and OGI continue to invest heavily in manufacturing facilities that will drive growth and expansion. Analysts expect TGOD to spend $152 million in capital expenditure (capex) for 2019. TGOD's capex/sales in 2020 stands at 651%, and this ratio falls to 26.9% in 2020.

OGI's capex/sales in 2019 is 105%, and it falls to 30.5% in 2020.

Analyst target estimates

TGOD and OGI are trading significantly below their 52-week highs. TGOD stock is trading at $0.95, which is 84% below its 52-week high. OGI stock is trading at $4.38 and 61% below its 52-week high.

Analysts expect TGOD stock to rise 241% in the next 12 months to $3.28 per share. They have an average price target estimate of $8.13 for OGI, which is 85% above the current price.

Though OGI is already profitable, it is expected to grow sales at a slower pace over the years, compared to TGOD. The latter also has significant upside potential looking at target estimates. TGOD is investing heavily in capex, which will drive sales. But does OGI's race to profitability make it a better investment in an uncertain environment?

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