



## Is Green Organic Dutchman (TSX:TGOD) Really the Best Pot Stock for 2020?

### Description

**Green Organic Dutchman Holdings** (TSX:TGOD) was once one of the hottest stocks on the market. After debuting in mid-2018, shares almost immediately doubled in value. Investors were attracted to the rapidly evolving cannabis market, with analysts expecting global market sales for marijuana to hit \$100 billion within a decade. Some forecasts eventually called for \$200 billion in global sales, up from just a few billion at the time.

Since Green Organic had its IPO, much has changed. In 2019, the cannabis market is down more than 50%. The stocks of once-lauded competitors have been hit hard. Smaller companies are down 80% or more. This sudden downturn has caused many investors to jump ship, but if you know what's [really going on](#), you should be prepared to act.

All early stage markets go through difficult times. In reality, occasional downturns are *healthy* for the market. As the industry matures and consolidates, it can be helpful for investors to realign their expectations and reassess what will actually work over the long term.

This year, Green Organic has been pummeled just like every one of its competitors. Since March, the stock has lost an astounding 80% of its value. With a market cap of just \$300 million, the company is being left for dead.

Note that industry-wide forecasts are still intact. Many respected analysts expect massive increases in cannabis demand over the next decade and beyond. Most sales growth expectations are between 20% and 30% per year. Market hype can change from year to year, even month to month, but eventually, the fundamental drivers of profits and cash flow will determine the stock prices of these companies.

If Green Organic can figure out how to capitalize, it could easily be the best-performing pot stock in 2020. Can the company really pull it off?

### Adrift at sea

Last year, **Aurora Cannabis**, which was worth more than \$10 billion, took a 17% stake in Green Organic. It also agreed to purchase 20% of Green Organic's output. This deal was pivotal for Green Organic. It gave it a well-financed partner with proven expertise, plus a cornerstone customer to soak up its new output as well as vouch for its quality and consistency.

"Teaming up with Aurora, the industry's innovation leader, provides us with a stable, supportive shareholder, through whom we have access to best-in-class technologies and industry know-how," noted Green Organic executives at the time.

In 2019, it all fell apart, as Aurora sold its stake and cancelled its pot purchasing agreement. Green Organic was stripped of its partner's resources and clout, not to mention its biggest customer. With nothing guaranteed, the stock has drifted lower and lower. It now has one of the cheapest valuations in the industry but also the most uncertainty.

## Here's the deal

According to management, Green Organic will have two production facilities online by the end of the year. It seems like the company is finally ready to generate real revenue, but without a cornerstone partner, it will likely be selling directly into a flooded market. Pricing is uncertain, but at least large volumes will be shipped.

This fiscal year, analysts expect Green Organic to generate around \$20 million in revenue. Next year, that figure could approach \$200 million, at which time the current stock price would be a steal. In order to get there, however, Green Organic will be at the whims of the market, hoping for reasonable pricing, ample demand, and lacklustre supply from its competitors.

This stock may be the best-performing cannabis company next year, but the factors for success are largely out of its control. Pot is still one of the best opportunities in Canadian investing history, but I'm sticking with better-positioned competitors.

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## Date

2025/08/21

## Date Created

2019/11/05

## Author

rvanzo

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