What Do OrganiGram's (TSX:OGI) Stellar Results Indicate?

Description

Canada-based cannabis company **OrganiGram Holdings** (TSXV:OGI)(NASDAQ:OGI) announced its fiscal fourth quarter of 2019 (year ended in August) results on November 25, 2019.

The company reported a net revenue of $16.29 million, a year-over-year growth of 411%. In fiscal 2019, its sales rose 547% to $80.41 million. Analysts expected OGI to report sales of $15.91 million in the fourth quarter of 2019.

OGI has been one of the few cannabis companies to report revenue above consensus estimates. Most top marijuana producing companies, including **Aurora Cannabis, Canopy Growth,** and **Cronos** disappointed investors with their recent quarterly results.

OGI has a distribution agreement with all 10 Canadian provinces

OrganiGram is a licensed producer (LP) of medical marijuana as well as for the recreational market. It claims to have the world's largest indoor cannabis cultivation facility in Moncton, New Brunswick.

OGI is one of just three LPs to have a distribution agreement in all 10 provinces and one of two LPs to have invested in biosynthesis disruptive technology. While sales were up close to 550% in 2019, the company also reported an adjusted EBITDA of $19.9 million.

In 2019, net loss from continuing operations was $9.5 million compared to a net income of $22.1 million in 2018. This loss was attributed to non-cash fair value changes to its assets and inventory.

With an EBITDA margin of 25%, OGI is one of the few cannabis companies to report a positive EBITDA figure. OGI stated that its gross margin of 47% ($37.9 million) in 2019, coupled with discretionary spending and cost management to have driven the bottom line higher.

The OGI press release states, "Operational excellence allowed us to deliver against our supply commitments and consistently keep product on the shelves which ultimately translated to our strong financial results. Our indoor, state-of the-art facility allows us to control all critical facets of the growing environment to provide a consistent quality product at a low cost of cultivation. “

The company’s in-house proprietary software, OrganiGrow, tracks several production features such as harvest period, environment conditions and strain to refine and optimize its production methods. These steps have resulted in operational efficiencies and helped control costs.

Is OrganiGram impacted by oversupply?

OrganiGram is one of the top players in Canada’s major cannabis province: Ontario. According to the Ontario Cannabis Store, the company’s Edison brand is one of the top three selling pre-rolls in the province.

However, we’ve seen that the inventory levels for top cannabis companies are rising due to the slow rollout of retail stores across Canada as well as the massive cannibalization from the illegal market.

OGI’s net sales in the fourth quarter fell 34% sequentially. Comparatively, its inventory value fell by 1.1% to $93.14 million. Its inventory stands at 80% of estimated fiscal 2020 sales. In 2019, the company more than doubled its target production capacity with the expansion of its Phase 4 Moncton facility.

While the number of retail outlets will increase over time, the regulatory process will result in delays. Taking the slow rollout of stores into consideration, OGI has decided to delay the completion of 4C (which is the final stage of its Phase 4 expansion) until there is more clarity on the same.

This will provide the company with enough capital for marketing products while keeping the launch of Cannabis 2.0 by the end of CY 2019 in mind.

OGI stock is currently trading at $3.51 at writing, which is 69% below its 52-week high of $11.30. Analysts tracking the firm have a 12-month price target of $5.71 for OGI, which is 62% higher than the current price.

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