



## Why Organigram (TSX:OGI) Stock Gained 44% Overnight

### Description

Shares of Canada-based cannabis company **Organigram Holdings** ([TSX:OGI](#))([NASDAQ:OGI](#)) rose by a staggering 44% on January 15, 2020. The company announced its fiscal first quarter of 2020 (ended in November) results on January 14 after the market close.

It reported net revenue of \$25.2 million, a year-over-year growth of 103% compared to net revenue of \$12.4 million in the prior-year period. Analysts expected the firm to post sales of \$18.96 million in the November quarter.

OGI's stellar performance also pushed peer cannabis stocks higher yesterday. Shares of **Charlotte Web Holdings**, **Hexo**, **Aurora Cannabis**, and **The Green Organic Dutchman** gained 17.3%, 15.9%, 15.5%, and 8.2%, respectively, on January 15.

### Key highlights in Q1

In the first quarter, OGI's cost of cultivation fell from \$0.87 per gram to \$0.61 per gram. Selling, general, and administrative expenses accounted for 37% of net revenue, marginally higher than the 36% in the prior-year period. OGI returned to positive EBITDA, which stood at \$4.9 million, or 19% of sales.

OGI shipped the Trailblazer Torch vape cartridges in December 2019 to take advantage of Cannabis 2.0. At the end of the November quarter, OGI had a cash balance of \$34.1 million, which is enough to fund its operations and capital-expenditure plans.

While OGI's net revenue more than doubled in Q1, its gross profits rose just 6% on an absolute basis. The company attributed this decline in gross margin to a higher cost of sales from "increased staffing for cultivation and post-harvest capacity." OGI could not benefit from economies of scale, as consumer demand was sluggish due to the slow rollout of retail stores in Canada.

The gross margin was also driven lower, as Organigram reported a net non-cash fair-value gain on biological assets and inventories sold of \$42.9 million in the first quarter of fiscal 2019. This figure

stood at \$1.9 million in the November quarter.

## What next for OGI and investors?

Despite concerns over vaping products, OGI and peers are investing heavily in product development. The company is initially focusing on the two largest segments based on the United States sales data for Cannabis 2.0.

According to this data, vape pens and edibles (including beverages) account for 23% and 13%, respectively, of the total recreational cannabis market. OGI will start shipping two more vape products in the next six months.

It's product portfolio also includes high-quality cannabis-infused chocolate and a dissolvable powder product aimed at the edibles market. These products will be launched by the end of the second quarter of the calendar 2020.

Last month, Organigram received approval for its remaining 16 grow rooms, which will increase the company's production capacity to 89,000 kgs per year, up from 76,000 kgs per year.

Due to lower-than-expected consumer demand over the last year, OGI has delayed the completion of Phase 4C, which is the final stage of its Phase 4 expansion. This facility was set to be completed by the end of December 2019 and Organigram has confirmed that it would prioritize cash flow for other opportunities.

However, Organigram is optimistic [that the expansion of retail stores](#) in Canada's major provinces such as Ontario and Quebec will help the firm grow revenue over the next few years. These two provinces account for 60% of the country's population.

Organigram stock is still trading 64% below its 52-week high, despite the impressive gain yesterday. How long can OGI and other pot stocks sustain this rally? A lot will depend on how giants Aurora Cannabis and **Canopy Growth** perform in their respective fiscal quarters.

### CATEGORY

1. Cannabis Stocks
2. Investing

### TICKERS GLOBAL

1. NASDAQ:OGI (OrganiGram)
2. TSX:OGI (OrganiGram)

### PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

**Category**

1. Cannabis Stocks
2. Investing

**Date**

2025/08/25

**Date Created**

2020/01/16

**Author**

araghunath

default watermark

default watermark