This Small-Cap Pot Stock Beats Canopy to Profitability

Description

When you think about marijuana stocks, you probably think about big names like **Canopy Growth** and **Aurora Cannabis**. These companies aren't turning a profit yet and won't be profitable any time soon. The first full year of cannabis legalization in Canada has been challenged by scandals, oversupply problems, and lack of visibility in retail. The factors all put downward pressure on pot companies.

However, there is one small-cap pot company trading on the TSX that flies under the radar but should deserve more attention, as it is expected to turn a profit as soon as this year. I'm talking here about **Organigram Holdings** (TSX:OGI)(NASDAQ:OGI), a small pot company with a market cap of near $500 million.

Organigram produces indoor-grown cannabis for patients and adult recreational users in Canada and is developing international business partnerships to expand its global footprint.

Organigram shares have lost more than 75% of their value in 2020 but posted solid gains last month as investors' optimism returned in the wake of strong quarterly earnings. For the quarter ended November 30, the New Brunswick-based company saw its revenues grow 102% to $25.2 million, exceeding consensus estimates by $21 million. It reported a net loss of $0.9 million or $0.006 per share.

The company also reached several key milestones during the quarter, the most notable of which was obtaining a license for 16 grow rooms, bringing its total production capacity to almost 90,000 kilograms.

Organigram spent heavily in its 2019 fiscal year but still managed to close with more than $25 million in cash in reserve, as well as $55 million in available credit.

Looking to the future, Organigram intends to expand its commercial footprint in Canada with the opening of more stores in Ontario and Quebec.

Organigram seems to want to differentiate itself from other Canadian producers by focusing on its high-margin derivative products such as sprays, pens, edible products and dissolvable powder, which should give a big revenue boost later this year.

The company announced on January 16 that it had entered into a supply agreement with Medical Cannabis by Shoppers, the online medical cannabis platform from **Shoppers Drug Mart**.

The terms of the agreement state that Organigram will supply the Canadian pharmacy chain with a wide range of products, including dried flowers, oils, and other derivative products as they become available. The agreement is for a period of three years, with the possibility of extending it for another two years.

The company's medical and adult-use products, which accounted for approximately $16 million in sales in the last quarter, will reach a much larger consumer base through the online marketplace from Shoppers.

In the next quarter, Organigram is expected to post a profit of $0.01 per share. For the full year, a profit of $0.04 and a revenue of $100 million are expected. This represents an increase of 200% and 63%, respectively, from a year ago. In 2021, profit is expected to increase by 300% to $0.16 per share, and revenue by 67% to $165 million.

In contrast, while Canopy's revenue is higher, it is expected to post a loss of $5.70 per share in 2020 and a loss of $1.26 in 2021. So, Organigram should have better returns in 2020 than Canopy and is clearly a better buy in the volatile marijuana sector.

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