



\$500 Invested Just After Organigram's (TSX:OGI) IPO Is Worth This Much Now

Description

We know that cannabis stocks have taken a beating in the last year. Pot stocks peaked just before recreational cannabis was legalized in Canada in October 2018. This bull run resulted in sky-high valuations.

Soon after the euphoria subsided, cannabis companies were hit by lower-than-expected demand, regulatory issues, cannibalization from illegal sales, and much more. Most pot stocks have missed consensus estimates by a huge margin since the start of 2019, resulting in an extended bear market for investors.

Shares of **Organigram Holdings** ([TSX:OGI](#))([NASDAQ:OGI](#)) closed trading at \$3.18 yesterday, which is 72% below its 52-week high. However, investors who bought Organigram shares just after it went public have experienced massive gains, despite the recent pullback.

OGI stock went public on January 5, 2012 and ended the day at \$0.29. The stock has since gained 1,000%. So, a \$500 investment in OGI just after its IPO is currently worth \$5,000. This also means that OGI stock gained a monstrous 3,800% between January 2012 and May 2019.

Organigram has a market cap of \$520 million

OGI stock is valued at \$520 million in terms of market cap. Analysts expect company sales to reach \$129 million in 2020, up from \$80.4 million in 2019, which means the stock has a market cap-to-forward-sales ratio of 3.7. This is a very reasonable valuation considering the expected sales growth of 63.4% in 2020 and 66.7% in 2021.

Another important aspect to consider is Organigram's profitability. While most pot stocks, including giants such as **Aurora Cannabis** and **Canopy Growth**, are struggling with negative profit margins, OGI is already posting an adjusted profit.

OGI was EBITDA positive in 2019, and analysts expect company earnings to rise to \$0.04 in 2020, up from -\$0.04 in 2019. Adjusted earnings are expected to grow 300% to \$0.16 in 2021. This means OGI

is trading at a forward price-to-earnings multiple of 20 — again, an attractive multiple for a high-growth company.

It is understandable why OGI stock is trading at a low valuation. The cannabis industry is grappling with structural issues. The slow rollout of retail stores in major Canadian provinces has severely hurt demand, driving revenue estimates lower.

Cannabis 2.0 was supposed to be the next big driver for pot stocks. But it is too early to estimate the incremental demand for cannabis-infused products and their impact on the top line.

This has also driven inventory levels higher for pot companies resulting in massive write-downs and falling profitability. While the total addressable market for recreational and medical cannabis continues to increase, short-term concerns will continue to weigh on investors.

Analysts have a price target of \$4.73 for OGI

According to average consensus estimates, the average 12-month target price for OGI stands at \$4.73, which is 49% higher than the current trading price. The stock gained 44% in a single trading session on January 15, 2020, after OGI reported [its fiscal first-quarter 2020 results](#) above estimates.

OGI has invested heavily in Cannabis 2.0 and is banking on vaping products and edibles to drive sales higher in 2020 and beyond. OGI will ship two vape products in the first half of this calendar year.

OGI products [are available in all 10 Canadian provinces](#), and the company is well positioned to be a market leader in the edibles space as well. The company's high-profit margins, low valuation, and rising sales make it one of the top picks among pot stocks.

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