This Pot Stock Could Go Bankrupt in 2020

Description

The pot industry is in turmoil. After setting dizzying new heights in 2018, the market experienced a painful bear market in 2019. Most companies experienced share price declines of at least 50%. Some stocks sank by more than 80%. That was the case with **Green Organic Dutchman Holdings** (TSX:TGOD).

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Once a multi-billion-dollar company, Green Organic was set to revolutionize the industry with high-margin organic produce. One of its largest competitors, **Aurora Cannabis**, even purchased shares of Green Organic, committing to buy a significant chunk of its marijuana crop.

Then the house came falling down. Today, the stock trades at $180 million valuation, one of the smallest market caps in the industry. Few investors are paying attention to this company. Most Wall Street bankers ignore Green Organic completely.

Some think the firm is ultimately headed for bankruptcy, but it’s far from certain what will happen in 2020. If a few events go its way, Green Organic could stage an unlikely comeback. Risk-tolerant investors could double or triple their capital by betting now, when there’s blood in the streets.

Is Green Organic a bankruptcy candidate or a once-in-a-lifetime buying opportunity? Let’s find out.

A difficult history

Green Organic went public on May 2, 2018. The IPO raised more than $115 million, which, at the time, set an industry record. The company immediately began constructing massive grow operations, targeting 100% organic production, which management argued had higher margins and better differentiation.

In early 2019, Green Organic attracted the attention of industry heavyweights. Aurora purchased a17% stake in Green Organic, with options to eventually take a controlling stake. Aurora also acquiredthe right to purchase 20% of Green Organic's annual organic cannabis production. Over time, the deal ultimately would allow Aurora to purchase more than 30% of the output.

With all the excitement, Green Organic stock surpassed $8 per share, assigning it a multi-billion-dollar valuation. The good days didn't last long. In 2019, Aurora pulled out of the agreement, selling its stake and terminating its commitment to buy Green Organic cannabis. Towards the end of the year, industry pricing began to collapse.

This brings us to the current situation.

Green Organic has massive grow facilities coming online right as pot pricing takes a nosedive. Without a committed partner, it's no guarantee that the company can convert most of its production into actual sales dollars. Without a capital partner, Green Organic could face difficulties raising fresh cash just as it needs it most. And with massive volumes of organic output hitting the market, the pricing premium over conventional production could erode completely.

Here's the bet

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Sounds pretty terrible, right? That's what the vast majority of investors have decided. Few people are willing to take a risk on the stock now, which is exactly why a buying opportunity exists.

TGOD stock now trades at 1.1 times 2021 revenue. The average cannabis stock trades at 2.5 times 2021 revenue. Green Organic shares could double in price and *still* trade at a discount to the market.

Granted, TGOD stock trades at a discount for a reason. Unlike its competitors, it hasn't shown an ability to sell output at scale. Additionally, it needs to find fresh capital to continue its production ramp.

These factors are major questions marks, but at some point, the discount become compelling enough to take a risk. If you want exposure to major upside, there are few better buying opportunities than TGOD stock in 2020.

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