



Cannabis Alert: No Pot Stock Has More Upside Than This Company

Description

Pot stocks soared in 2018. Many companies doubled or tripled in value.

Last year was a different story, however. Most cannabis stocks fell by at least 50%. More than \$10 billion in market value was erased.

What will 2020 bring? Following the bear market of 2019, some pot stocks are primed for a rebound. Valuations are the lowest they've ever been thanks to cratering expectations. Industry sales, meanwhile, continue to rise, setting the stage of big profits. All you need to do is take some calculated risks.

Green Organic Dutchman Holdings Ltd (TSX:TGOD) is a [perfect example](#).

Once a multi-billion dollar firm, Green Organic is now valued at just \$180 million. Investors and analysts are ditching the stock en masse. Yet sales are ready to surge this year, making the stock one of the cheapest in the industry.

How much upside could there be in TGOD stock, and how much risk do you have to assume to achieve that upside? Let's find out.

A broken industry

The cannabis industry is confused. It used to be stupidly easy to raise money. Today, several former gems are worried about their cash runway.

Additionally, share prices used to respond directly to production claims. If investors believed you'd be selling a ton of pot over the coming months, your stock would surge. That relationship has vanished.

What's going on?

The biggest realization the market has come to is that pot companies aren't special unicorns. At their

core, these businesses are mostly farming operations. Would a tomato or beet farm trade at sky-high multiples? Probably not. The allure of legal marijuana papered over many of the industry's weak points.

As a crop that simply grows out of the ground (or hydroponically), cannabis will increasingly become commoditized. It's happening already.

In Oregon, for example, the state had more than one million pounds of excess production, causing prices to plummet. As more companies scale massive grow operations, pricing in all markets will continue trending lower.

What will happen?

We're already in the next phase of cannabis investing. Rather than rapid growth, investors are demanding *profitable* growth. As pricing continues to decline, companies need to prove that they can differentiate their products and command pricing power through customer loyalty, which means creating brands that consumers love.

The market is in wait-and-see mode, but only differentiated businesses capable of turning a long-term profit will emerge from the current mess.

Here's the deal

Where does this all leave Green Organic?

As its name suggests, Green Organic has 100% organic production. So far, organic cannabis fetches a 10% to 30% premium versus conventional output. There's some pricing power right there.

But the company is going further. This quarter, management is launching several value-add products that should start to protect the firm from pricing erosion.

Over the coming months, the company plans on selling organic cannabis-infused teas, oil, infusers, vapes, and pre-rolls. Long-term, it plans on launching beverages, topicals, and other medicines.

Based on 2021 sales estimates, TGO stock trades at 1.1 times forward revenue. The industry peer group trades at 2.5 times 2021 sales estimates. That's a huge discount!

As a smaller player, TGO stock may deserve a lower valuation, but at some point, the gap becomes too large to pass up. With 140% in potential upside, now might be the ideal time.

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. Cannabis

PARTNER-FEEDS

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

Category

1. Cannabis Stocks
2. Investing

Tags

1. Cannabis

Date

2025/08/15

Date Created

2020/02/22

Author

rvanzo

default watermark

default watermark