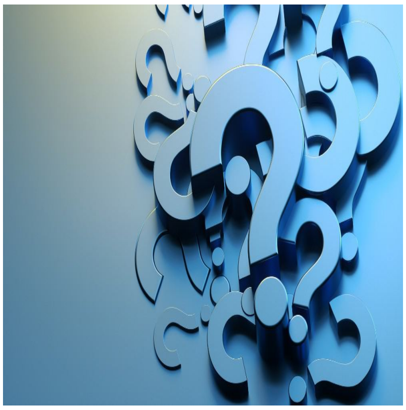

Will This Pot Stock Go Boom or Bust in 2020?

Description

Pot stocks have burnt massive investor wealth in the last year. While several cannabis companies are trading way below their record highs, shares of **The Green Organic Dutchman** (TSX:TGOD) have been among the most severely hit in this space.

TGOD stock is trading 90% below its 52-week high and now has a market cap of $178.3 million. This cannabis company was once valued at almost $2 billion and was well poised to disrupt the high-growth cannabis space.

TGOD shares fell 40% in October 2019 after the company was struggling to raise capital. It then had to revise the construction schedule of its licensed facilities in Ancaster and Valleyfield. TGOD also unveiled a strategic plan to lower capital expenditures and cut costs to meet lower-than-estimated demand.

Last September, **Aurora Cannabis** sold its 10.5% stake in TGOD and terminated the option agreement to purchase 20% of the latter's cannabis production. This move expectedly rattled investors.

Is TGOD running out of cash?

Earlier this month, boutique investment bank Ello Capital released a report that raised serious concerns over the liquid cash positions of most pot companies. Cannabis companies are still not profitable and might need to raise capital to keep operations up and running.

According to the report, TGOD has just 3.9 months of available cash before running out of money. These estimates do not consider short-term investments or cash used in acquisitions. TGOD ended the September quarter with a cash balance of $22.93 million and an operating cash flow of -$47.65 million.

What next for investors?

TGOD's massive pullback in the last year has meant that the stock is trading at a cheap valuation. Analysts expect the company to increase sales by a staggering 591% to $74.65 million in 2020. This means it is valued at 2.4 times 2020 sales. This increase in sales will also help the company improve profit margins. Analysts expect TGOD to be EBITDA positive by 2021.

Over the years, the company has focused on developing a consumer-driven portfolio, which includes dried flowers, oils, cannabis-infused beverages, vapes, and topicals. TGOD has exclusive licensing deals in Canada and select international markets, which will also give a boost to the top line.

Driven by a change in macro market conditions, TGOD has decided to adopt a phased construction and operating plan. This has helped the firm to right-size near-term production and avoid excess capacity.

Investors will also hope that TGOD benefits from the launch of Cannabis 2.0 products. The company has supply agreements in 10 out of the 12 Canadian provinces, giving it access to a large part of the country's population.

In the medical cannabis space, TGOD continues to expand reach via partnership expansions with clinics. It has 39 clinic partner contracts in place covering 65 physical locations in Canada, and this might very well expand in 2020 and beyond.

The verdict

There is no doubt about the expanding market opportunity in Canada's recreational and medical cannabis space. However, TGOD's precarious cash position coupled with the extended bear run in the cannabis segment will keep investors cautious in the short term.

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