Is OrganiGram (TSX:OGI) Stock a Buy Right Now?

Description

Shares of cannabis company **OrganiGram** (TSX:OGI)(NASDAQ:OGI) are trading at $2.65, which is 72% below its 52-week high. In the last month, several pot stocks have surged higher due to better-than-expected quarterly results for companies such as **Aurora Cannabis** and **Hexo**.

So, does this mean that the bear market impacting marijuana investors is over? Is it time to go bottom fishing and buy OrganiGram at a lower valuation?

Upcoming results are critical for OrganiGram

OrganiGram reported its fiscal second-quarter results on April 14 and disappointed investors. Company net revenue fell 13.7% year over year to $23.2 million. Its net loss also rose to $6.8 million, up from $6.4 million in the prior-year quarter.

OrganiGram is struggling to maintain its sales in the recreational market. In Q2, the company's recreational revenue fell 39% year over year to $18.9 million. The recreational business is critical for OGI, as it accounts for 81.5% of total revenue. In the last two quarters, recreational sales fell 17% compared to revenue growth of 23%.

Another reason for investors to be concerned is the company's dependence on its largest customers. During the earnings call, the marijuana company confirmed that its three largest customers each account for more than 10% of sales.

Several companies in the marijuana sector are burning money and struggling with low cash balances. OGI ended the last quarter with a cash balance of $41.1 million. In the last two quarters, OrganiGram spent $25 million in operating expenses and $65 million on capital expenditure.

In order to remain afloat, the company has raised debt that stands at $87 million. It has also issued equity shares, diluting shareholder wealth. These risks are exacerbated when you consider OrganiGram's customer profile.

Focus on diversification and cost efficiencies

In April 2020, OrganiGram announced it is laying off 45% of its workforce or 400 employees. The company's low liquidity and a weak balance sheet left it with no option in a macro environment that is highly volatile and uncertain. Several pot companies have reduced their workforce due to the ongoing COVID-19 pandemic as well as lower-than-expected demand.

OrganiGram investors will be hoping for Cannabis 2.0 products to provide a lifeline to the company. In Q2, OrganiGram's Cannabis 2.0 products, such as chocolates and vape pens, accounted for 13% of net sales. These products were introduced at the end of 2019 and are fast gaining traction among recreational pot consumers.

The company's wholesales revenue also accounted for 24% of net sales, up from 0% in the prior-year period. Wholesale revenue managed to offset OGI's decline in the recreational business.

A look at OGI's valuation and other metrics

OrganiGram stock has a market cap of $458.66 million. Analysts expect company sales to reach $104.1 million in 2020 and grow by 63.7% to $170.4 million in 2020. Its forward price-to-sales ratio of 4.9 seems reasonable for a company that is part of a rapidly expanding market.

Analysts tracking OrganiGram stock have a 12-month price target of $4.76, which is 80% above the current trading price. It seems like a perfect contrarian buy. However, as we have seen, OGI's low cash balance and negative profit margins coupled with falling recreational sales carry significant risks for investors.

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