Down 96% From Record Highs, Is This TSX Pot Stock a Buy Right Now?

Description

Shares of Canada-based cannabis producer **The Green Organic Dutchman** (TSX:TGOD) is trading at $0.41 per share. This is 96% below its record high of $7.3, making it among the worst-performing pot stocks on the TSX. This also means the stock's market cap has slumped to $157.6 million from over $2.7 billion in September 2018.

Similar to other marijuana stocks, TGOD is grappling with several structural issues. It generated $3.1 million in sales in the first quarter, which was lower than its revenue of $3.3 million in the fourth quarter of 2019. Due to multiple impairment charges, TGOD's net loss stood at a massive $73.4 million.

While impairment charges contributed to widening losses, TGOD's operating loss of $15.3 million in the March quarter is hardly flattering. In fact, the TGOD has reported an operating loss of at least $15 million for six consecutive quarters.

The company's cash burn has investors and analysts rightly worried. TGOD used $13.1 million in the first quarter to fund its operating activities. Even though this figure is significantly lower than the prior-year figure of $22.5 million, the company is in a precarious position given its cash balance of $4.85 million at the end of Q1. In 2019, TGOD burnt a massive $200 million in cash.

In the first quarter, TGOD raised $6.7 million in debt, which will further pressurize its financials. Another cause of concern is the company's short-term liquidity. Its current assets were $32.5 million in Q1, while current liabilities stood at $39.3 million.

Last year, the company announced a significant cut in production. Its peak annual production capacity stood at 219,000 kg. TGOD forecast 2020 production between 20,000 kg and 22,000 kg. While the production cut was expected to lower sales growth, it was intended to improve cash flow and lower operating costs.

What's next for TGOD and investors?

Analysts expect TGOD sales to increase 158% to $28.8 million in 2020 and 136% to $67.93 million in

2021. However, the company is expected to end 2021 with earnings per share of -$0.05, which will mean it will have to raise more capital to stay afloat.

TGOD's debt balance stands at $28.63 million, and given the current cash burn, it has fewer than three quarters to be cash flow positive. The ongoing downturn will make it difficult for loss-making companies to raise additional capital.

While **Canopy Growth** and **Cronos** are backed by **Constellation Brands** and **Altria**, respectively, TGOD does not have any large partnerships to rely on. While this reduces access to billions of dollars in capital, it also limits the company's branding potential.

TGOD will stand to benefit from lower inventory levels and rising sales if Health Canada accelerates the rollout of retail stores in major Canadian provinces. The cannabis industry is still at a nascent stage, which provides enough growth opportunities for players. However, this space has also attracted multiple companies, making it a crowded market.

TGOD is a risky bet given the above-mentioned factors. It is still trading at a forward price-to-sales multiple of 13, which is unreasonable, to say the least.

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Date
2025/08/25
Date Created
2020/07/11
Author
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