

22 July 2021

Little Green Pharma Ltd

COLTS - Cannabis

Rating
SPECULATIVE BUY
unchanged

Price Target
A\$1.13↑
from A\$1.10

LGP-ASX

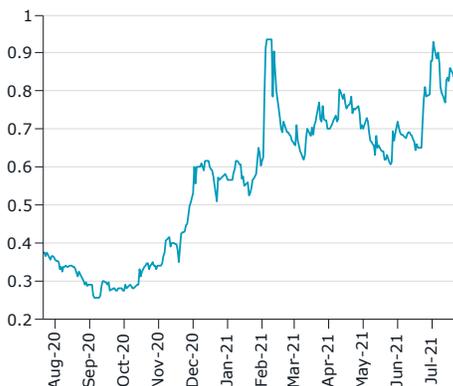
Price
A\$0.85

Market Data

52-Week Range (A\$) :	0.25 - 1.02
Avg Daily Vol (M) :	0.9
Market Cap (A\$M) :	198.4
Shares Out. (M) :	233.4
Enterprise Value (A\$M) :	172
Cash (A\$M) :	37.4
Long-Term Debt (A\$) :	10.7

FYE Jun 2020A 2021E 2022E 2023E

Sales (A\$M)	2.2	8.2↓	19.9↓	30.9↑
Previous	-	9.2	20.7	29.6
EBITDA (A\$M)	(6.3)	(3.5)↓	(9.4)↓	(2.8)↓
Previous	-	(3.0)	0.8	4.6
Net Income (A\$M)	(6.8)	(3.9)↓	(8.1)↓	(3.6)↓
Previous	-	(3.3)	0.1	2.6
EV/Sales (x)	88.1	20.8	9.7	6.5



Source: FactSet

Priced as of close of business 21 July 2021

Little Green Pharma is a vertically integrated medicinal cannabis company. Its operations span cultivation, manufacturing, extraction, distribution and its owns its own brand that has strong market share in multiple countries.

Canaccord Genuity (Australia) Limited has received a fee as Lead Manager to the Little Green Pharma Ltd Capital Raising announced 8 February 2021.

Cameron Bell | Analyst | Canaccord Genuity (Australia) Ltd. | cbell@cgf.com | +61.3.8688.9152

Bigger Green Pharma

Investment Recommendation

LGP's growth profile has been so strong that the company ran the risk of reaching its production capacity. The company has now announced a \$21m acquisition of a medicinal cannabis facility in Denmark that increases the company's revenue potential, accelerates its growth profile while also removing any near-term risk associated with capacity constraints. By acquiring the capacity rather than building it out, the company is saving money while also bringing growth plans forward by ~2 years. We had previously been positive on LGP largely due to the strength of its business model, and this transaction has increased its quality further, in our view. We maintain our SPECULATIVE BUY rating and increase our DCF-based price target to \$1.13 (from \$1.10).

Acquisition of production facility in Denmark

LGP has announced that has acquired Canopy Growth Denmark, which owns a medicinal cannabis production facility in Denmark. The acquisition price is C\$20m (A\$21.4m) and the transaction will provide LGP with >20t per annum of biomass production capacity including ~12t per annum of dried cannabis flower. LGP currently has capacity of ~3t biomass (~1.5t of dried flower) so the expansion increases LGP's capacity by 8x.

Through the cultivation capex boom of 2018-19 we had assessed that the investment required generally ran at \$3-6m per tonne of capacity for most projects globally. By comparison, LGP is acquiring 20t capacity for ~A\$21m. In addition, there is no planning phase, no potential for construction delays and the licensing is underway, etc., and it is already fully operational. From the Canopy Denmark accounts, we can see that ~A\$67m was spent setting up the site and we also note \$2.3m of inventory is held on the balance sheet.

While the purchase makes a large amount of sense strategically, it is not without risk, and execution on sales will prove how beneficial the deal becomes. Based on the Canopy Denmark accounts with the Danish regulator, we estimate that Canopy Denmark generated an underlying EBITDA loss of ~A\$16m in FY21 which is likely to impact near-term earnings for LGP. However, we estimate the facility has revenue capacity of > \$200m, and we believe costs are unlikely to increase until utilisation reaches >50%. With a high level of operating leverage and a base cost level of ~\$16m, we believe if sales can ramp up quickly the potential financial benefits are material. The site previously generated no revenue due to the previous owners' priorities, but it appears well positioned to service European markets with LGP branded oils and flower, and potentially some white label products too.

Strengthening the thesis

The addition of production and distribution capacity solidifies our positive stance on LGP, and the longer term potential of the business has been enhanced, in our view.

We believe that LGP's vertically integrated model positions it to be a potential leader in the sector globally and its recent track record supports this. The company has balance sheet capacity, carries a brand that is gaining traction in several key markets including Australia, Germany, France and Poland, and has the regulatory approvals in place to solidify its position in these growth markets. In addition, the near-term revenue growth is largely underpinned by international contracts that have already been announced, and recent patient numbers in Australia suggest its domestic revenue will continue to grow at elevated levels.

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Canaccord Genuity is the global capital markets group of Canaccord Genuity Group Inc. (CF : TSX)

The recommendations and opinions expressed in this research report accurately reflect the research analysts' personal, independent and objective views about any and all the companies and securities that are the subject of this report discussed herein.

For important information, please see the Important Disclosures beginning on page 7 of this document.

Figure 1: LGP Financial Summary

Profit & Loss (A\$m)					Valuation ratios				
	2020A	2021F	2022F	2023F		2020A	2021F	2022F	2023F
Sales Revenue	2.2	8.2	19.9	30.9	EPS	-6.7	-2.4	-3.5	-1.6
EBITDA	-6.3	-3.5	-9.4	-2.8	P/E (x)	-12.6	-35.1	-24.6	-54.8
Depreciation	-0.1	-0.4	-0.9	-1.0	PER Rel - All Ords.	-178%	-320%	-256%	-451%
EBITA	-6.4	-3.9	-10.3	-3.8	PER Rel - Small Ind.	-173%	-324%	-262%	-470%
Amortisation	-0.1	-0.1	-0.1	-0.1	Enterprise Value (\$m)	194.1	171.7	192.2	199.7
EBIT	-6.5	-3.9	-10.3	-3.9	EV / EBITDA (x)	-30.9	-49.7	-20.5	-72.0
Net Interest Expense	-0.4	0.0	-1.2	-1.3	EV / EBIT (x)	-30.0	-43.8	-18.6	-51.8
NPBT	-6.8	-3.9	-11.5	-5.2	DPS (AU\$ cps)	0.0	0.0	0.0	0.0
Tax expense	0.0	0.0	3.5	1.6	Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
NPAT (Normalised)	-6.8	-3.9	-8.1	-3.6	Franking (%)	100%	100%	100%	100%
Significant items	-2.5	-1.8	0.0	0.0	CFPS (cps)	-6.0	-3.3	-5.8	-2.5
NPAT (Reported)	-9.3	-5.7	-8.1	-3.6	P / CFPS (x)	-14.3	-25.6	-14.7	-33.8
Cash Flow					Profitability ratios				
	2020A	2021F	2022F	2023F		2020A	2021F	2022F	2023F
Operating EBITDA	-6.3	-3.5	-9.4	-2.8	EBITDA Margin (%)	-285.5	-42.0	-47.1	-9.0
- Interest & Tax Paid	-0.4	0.0	-1.2	-1.3	EBIT Margin (%)	-293.9	-47.5	-51.8	-12.5
+/- change in Work. Cap.	-0.8	-1.9	-2.9	-1.8	ROE (%)	-55.5	-7.7	-18.8	-9.6
- other	1.4	0.0	0.0	0.0	ROA (%)	-41.6	-5.9	-13.2	-6.4
Operating Cashflow	-6.0	-5.4	-13.5	-5.9	ROIC (%)	-80.1	-15.9	-19.5	-6.8
- Capex	-6.3	-5.5	-7.1	-1.6	Balance Sheet ratios				
- Acquisitions/divestments	-0.5	-10.0	0.0	0.0		2020A	2021F	2022F	2023F
- other	-0.3	0.0	0.0	0.0	Net Debt (cash)	-4.3	-26.7	-6.2	1.3
Free Cashflow	-13.1	-20.9	-20.5	-7.5	Net Gearing (ND/E%)	-34.8%	-52.4%	-14.4%	3.4%
- Ord Dividends	0.0	0.0	0.0	0.0	Interest Cover (x)	-18.4	-127.7	-8.5	-2.9
- Equity /other	16.9	54.1	0.0	0.0	ND/EBITDA (x)	NM	NM	NM	NM
Net Cashflow	3.8	33.2	-20.5	-7.5	NTA per share (AU\$)	0.17	0.37	0.17	0.15
Cash at beginning of period	0.5	4.3	37.4	16.9	Price / NTA (x)	5.1	2.3	4.9	5.6
+/- borrowings / other	0.0	0.0	0.0	0.0	EFPOWA (m)	101.5	163.1	233.4	233.4
Cash at end of period	4.3	37.4	16.9	9.4	Growth ratios				
Balance Sheet						2020A	2021F	2022F	2023F
	2020A	2021F	2022F	2023F	Sales revenue (\$m)	786.9%	273.9%	141.4%	55.5%
Cash	4.3	37.4	16.9	9.4	EBITDA (\$m)	34.1%	-45.0%	171.0%	-70.4%
Inventories	1.3	3.0	5.3	6.5	EBIT (\$m)	35.8%	-39.6%	163.2%	-62.6%
Debtors	0.6	1.8	4.7	6.5	NPAT (\$m)	43.2%	-42.2%	104.2%	-55.1%
PPE	7.5	20.8	26.3	26.7	Adj EPS (cps)	-2.2%	-64.0%	42.7%	-55.1%
Intangibles	0.6	1.6	2.3	2.4	DPS (cps)	n/a	n/a	n/a	n/a
Other assets	2.0	2.0	5.5	5.5	Interim Analysis				
Total Assets	16.4	66.8	61.0	57.0		1H20A	2H20A	1H21A	2H21F
Borrowings	0.0	10.7	10.7	10.7	Revenues	1.3	1.8	5.6	4.5
Trade Creditors	2.1	3.0	5.3	6.5	EBITDA	-3.4	-2.9	0.2	-3.7
Other Liabilities	1.8	1.8	1.8	1.8	EBITDA margin (%)	-256.7%	-161.1%	3.7%	-82.1%
Total Liabilities	4.1	15.8	18.1	19.2	EPS	1.9	-8.9	0.2	-2.6
NET ASSETS	12.3	51.0	43.0	37.8	DPS	0.0	0.0	0.0	0.0
Board of Directors / Substantial Shareholders					Valuation				
Board of Directors & Management					Discounted Cash Flow				
	Shareholding				Cost of equity	11.5%			
Fleta Solomon - Managing Director	20.3				Cost of debt	5.5%			
Angus Caithness - Executive Director	6.4				Net Debt/ Net debt + equity	20.0%			
Michael Lynch-Bell - Non Executive Chair	1.1				WACC	10.0%			
Neale Fong - Non Executive Director	0.9								
Major Shareholders					Terminal Growth Rate	3.0%			
	Shareholding				Per Share (AU\$)	\$ 1.13			
Elixer	27.4								
Gina Rinehart / Hancock Prospecting	26.7								
Fleta Solomon - Managing Director	20.3								
Thorney Investment Group	16.2								
Top 20 Shareholders	76.6								
Description									
Little Green Pharma is a vertically integrated medicinal cannabis company. Its operations span cultivation, manufacturing, extraction, distribution and its owns its own brand that has strong market share in multiple countries.									

Source: Company reports, Canaccord Genuity estimates

Acquisition of production facility

LGP has announced the acquisition of a fully operational GACP cultivation and GMP certified cannabis facility in Denmark for C\$20m. As part of the deal, LGP raised A\$27m via a placement at A\$0.60 per share.

The acquisition has strong strategic elements as it removes a ceiling on LGP's near-term growth prospects, while also providing the level of capacity and cost savings that will likely support LGP through the medium term.

The facility was previously owned by Canopy Growth but was operating in a capacity that did not generate external sales but still maintained a fully operation cost base. The losses combined with its negative equity balance led its auditor to flag uncertainty around its ability to continue as a going concern, but the asset was structured in a way such that the losses continued, and Canopy would fund it strategically while restricting its sales. The present approvals for production and sales in and outside Demark also expire on 31 December 2021 but should in theory be extended.

As part of the transaction, LGP welcomed Gina Rinehart's Hancock Prospecting onto the register, which now holds ~11% of the company.

We estimate that LGP previously had revenue capacity of ~\$25m and our FY22E revenue forecast was ~\$20m, meaning the company was soon going to be reining in its contract tendering operations. This would have put a cap on LGP's potential growth, and represented a key risk for the company's aspirations.

Figure 2: LGP's previous revenue capacity

	Capacity	Midpoint	Price	Revenue	Revenue
Flower	1.2-1.5t	1,350,000	€5	€6.75m	A\$10.5m
Oil	100,000 bottles		\$150	A\$15m	A\$15m
Total					A\$25.5m

Source: Company reports, Canaccord Genuity estimates

Following the deal we believe the capacity risk has been removed, the near-term growth potential has been accelerated and that revenue capacity has increased dramatically. We estimate the revenue capacity of LGP's internal facilities is now >\$200m per annum.

Figure 3: LGP's new revenue capacity

	Capacity	Price	Revenue	Revenue
Flower	13.5t	€5	€67.5m	A\$108m
Oil	633,333 bottles	\$150		A\$95m
Total				A\$203m

Source: Company reports, Canaccord Genuity estimates

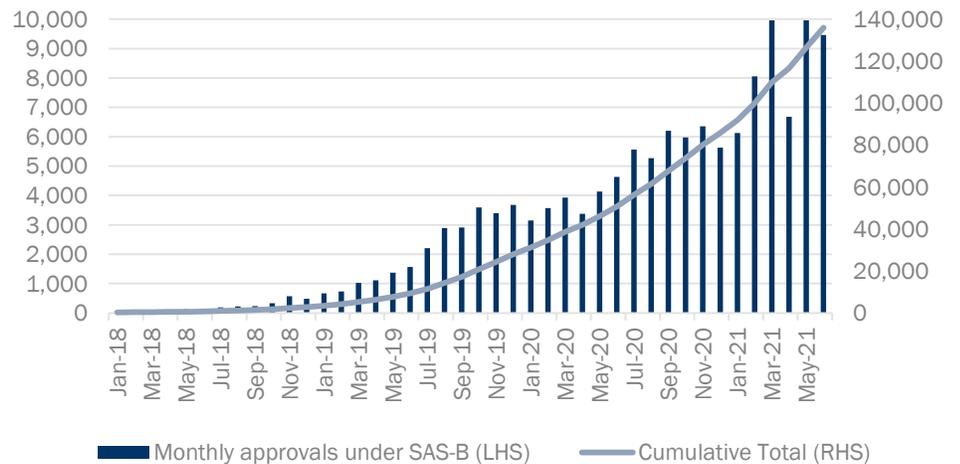
Patient number trends in Australia

LGP’s market share in Australia means that as the market grows, so does its revenue. The Special Access Scheme-B (SAS-B) data in recent months has shown ongoing growth in patient numbers, albeit slightly tempered rates. In June 2021, the Therapeutics Goods Association (TGA) approved 9,461 applications from patients wanting to access medicinal cannabis products under SAS-B. This is slightly below the number in May, which was the highest monthly total ever.

On a rolling quarter-on-quarter basis, the patient numbers are up 8% on the prior quarter, and this number appears likely to increase next month given the soft result in April, as well as the inflated February/March numbers that were boosted by flower availability issue.

The total number of approvals in Australia is now over 136,000 under the SAS-B process with over 85,000 being issued over the last 12 months.

Figure 3: Rolling quarter-on-quarter growth of SAS-B approvals is ~8%



Source: Therapeutic Goods Administration, Canaccord Genuity estimates

Figure 3: Rolling quarter-on-quarter growth of SAS-B approvals is ~8%



Source: Therapeutic Goods Administration, Canaccord Genuity estimates

Changes to our estimates

The main changes we have rolled through include the increase in shares on issue and the increase in the cost base (both in the COGS line and opex) associated with the new Danish facility.

Figure 6: Changes to our estimates

	FY21E			FY22E		
	Old	New	% Δ	Old	New	% Δ
REVENUE						
Flower - Domestic	0.3	0.3	0%	0.9	1.5	70%
Flower - Export	1.2	1.2	0%	8.5	8.5	0%
Oils - Domestic	5.9	5.0	-16%	8.9	7.6	-16%
Oils - Export	1.6	1.6	0%	2.3	2.3	0%
Operating sales	9.2	8.2	-11%	20.7	19.9	-4%
Total Revenue	11.0	10.1	-8%	22.1	21.4	-3%
COGS	4.8	4.3	-10%	10.3	15.9	54%
Gross Profit	4.4	4.0	-10%	10.3	4.0	-61%
Gross margin	39.8%	39.1%	-0.7%	46.6%	18.6%	-28.0%
Other costs	7.4	7.4	0%	9.5	13.3	41%
EBITDA	-3.0	-3.5	15%	0.8	-9.4	NM
EBITDA margin	-27.4%	-34.2%	-6.8%	3.8%	-43.8%	-47.6%
EBIT	-3.3	-3.9	19%	0.2	-10.3	NM
Reported NPAT	-4.0	-5.7	43%	0.1	-8.1	NM
Underlying NPAT	-3.3	-3.9	18%	0.1	-8.1	NM
EPS (c)	-2.1	-2.4	17%	0.1	-3.5	NM
Capex	-7.6	-5.5	-27%	-9.1	-7.1	-22%
Net debt	-19.5	-26.7	37%	-8.3	-6.2	-25%
Wtd shares on issue	160.8	163.1	1%	188.1	233.4	24%

Source: Company reports, Canaccord Genuity estimates

Figure 7: Income statement

(AU\$M)	FY20	FY21F	FY22F	FY23F	FY24F	FY25F
REVENUE						
Flower - Domestic	0.0	0.3	1.5	4.5	7.8	13.7
Flower - Export	0.0	1.2	8.5	10.4	12.7	15.6
Oils - Domestic	2.2	5.0	7.6	9.0	10.7	10.6
Oils - Export	0.0	1.6	2.3	7.0	14.1	28.1
Operating sales	2.2	8.2	19.9	30.9	45.2	68.0
Total Revenue	3.1	10.1	21.4	32.4	46.7	69.5
COGS	1.1	4.3	15.9	19.1	22.9	27.5
Gross Profit	1.1	4.0	4.0	11.8	22.3	40.5
Gross margin	35.8%	39.1%	18.6%	36.5%	47.7%	58.3%
Other costs	7.4	7.4	13.3	14.6	16.0	16.5
EBITDA	-6.3	-3.5	-9.4	-2.8	6.3	23.9
EBITDA margin	-201.4%	-34.2%	-43.8%	-8.6%	13.5%	34.5%
EBIT	-6.5	-3.9	-10.3	-3.9	5.2	22.7
Reported NPAT	-9.3	-5.7	-8.1	-3.6	2.7	15.0
Underlying NPAT	-6.8	-3.9	-8.1	-3.6	2.7	15.0
EPS (c)	-6.7	-2.4	-3.5	-1.6	1.2	6.4

Source: Company reports, Canaccord Genuity estimates

Appendix: Important Disclosures

Analyst Certification

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this research hereby certifies that (i) the recommendations and opinions expressed in this research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the research, and (iii) to the best of the authoring analyst's knowledge, she/he is not in receipt of material non-public information about the issuer.

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Sector Coverage

Individuals identified as "Sector Coverage" cover a subject company's industry in the identified jurisdiction, but are not authoring analysts of the report.

Investment Recommendation

Date and time of first dissemination: July 21, 2021, 17:30 ET

Date and time of production: July 21, 2021, 06:09 ET

Target Price / Valuation Methodology:

Little Green Pharma Ltd - LGP

Our \$1.10 price target is based on a DCF model, which assumes a 1.5 equity beta, 10.0% WACC and a terminal growth rate of 3%.

Risks to achieving Target Price / Valuation:

Little Green Pharma Ltd - LGP

Regulatory risk: The regulatory landscape is rapidly changing in the medicinal cannabis industry globally. Although most changes to date have made access for patients/customers easier, there is a risk the new rules could negatively impact operations of all companies at various times.

Crop risk: As is the case with agricultural products, infection or infestation can result in some crops having to be destroyed rather than turned into finished goods.

Customer concentration: Near-term revenue growth is largely dependent on one large German customer. Any issues with this particular contract could negatively impact LGP.

Competition: Competition is tough in the sector as various groups fight for market share. The loss of market share in any jurisdiction would be negative for LGP.

Pricing: The increase in supply of goods is likely to put downward pressure on commoditised products. Having a strong brand protects from this, and LGP could also benefit from some of its inputs costs falling.

Market cannibalisation: CBD products becoming easier to access in Australia could negatively impact prescription sales, similar to the experience seen with recreational legalisation in parts of North America.

Distribution of Ratings:

Colts Stock Ratings (as of 07/21/21)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	0	0.00%	0.00%
Hold	0	0.00%	0.00%
Sell	0	0.00%	0.00%
Speculative Buy	5	100.00%	60.00%
	5*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

“Risk-adjusted return” refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

A list of all the recommendations on any issuer under coverage that was disseminated during the preceding 12-month period may be obtained at the following website (provided as a hyperlink if this report is being read electronically) <http://disclosures-mar.canaccordgenuity.com/EN/Pages/default.aspx>

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Little Green Pharma Ltd currently is, or in the past 12 months was, a client of Canaccord Genuity or its affiliated companies. During this period, Canaccord Genuity or its affiliated companies provided investment banking services to Little Green Pharma Ltd.

In the past 12 months, Canaccord Genuity or its affiliated companies have received compensation for Investment Banking services from Little Green Pharma Ltd .

In the past 12 months, Canaccord Genuity or any of its affiliated companies have been lead manager, co-lead manager or co-manager of a public offering of securities of Little Green Pharma Ltd or any publicly disclosed offer of securities of Little Green Pharma Ltd or in any related derivatives.

Canaccord Genuity or one or more of its affiliated companies intend to seek or expect to receive compensation for Investment Banking services from Little Green Pharma Ltd in the next three months.

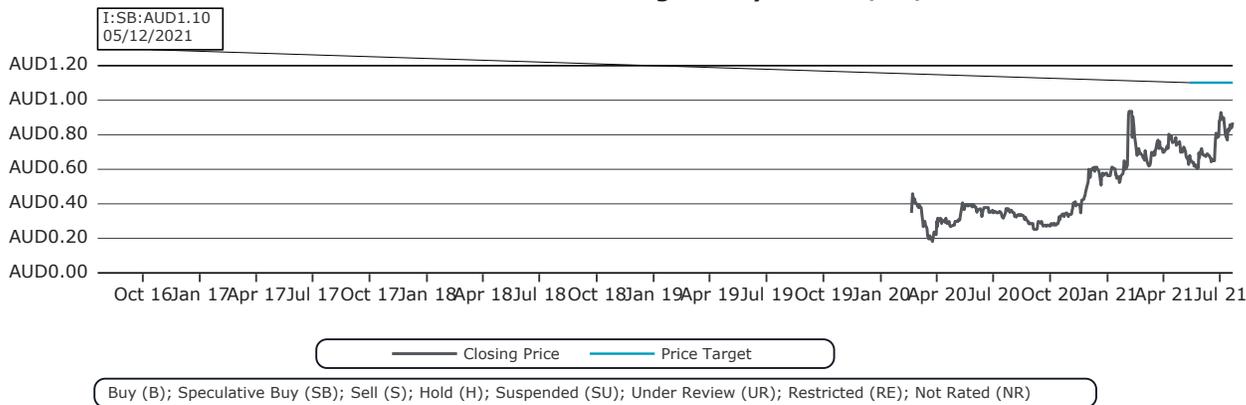
The primary analyst, a member of primary analyst's household, or any individual directly involved in the preparation of this research, has a long position in the shares or derivatives, or has any other financial interest in Little Green Pharma Ltd, the value of which increases as the value of the underlying equity increases.

As of the month end immediately preceding the date of publication of this research, or the prior month end if publication is within 10 days following a month end, Canaccord Genuity or its affiliated companies, in the aggregate, beneficially owned 1% or more of any class of the total issued share capital or other common equity securities of Little Green Pharma Ltd or held any other financial interests in Little Green Pharma Ltd which are significant in relation to the research (as disclosed below).

An analyst has visited the material operations of Little Green Pharma Ltd. No payment was received for the related travel costs.

Canaccord Genuity (Australia) Limited has received a fee as Lead Manager to the Little Green Pharma Ltd Capital Raising announced 8 February 2021.

Little Green Pharma Ltd Rating History as of 07/20/2021



Required Company-Specific Disclosures (as of date of this publication)

Past performance

In line with Article 44(4)(b), MiFID II Delegated Regulation, we disclose price performance for the preceding five years or the whole period for which the financial instrument has been offered or investment service provided where less than five years. Please note price history refers to actual past performance, and that past performance is not a reliable indicator of future price and/or performance.

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