

Little Green Pharma Ltd

COLTS - Cannabis

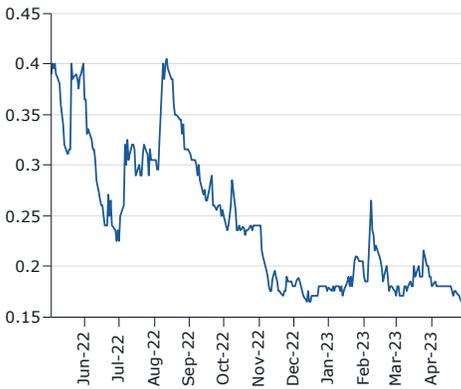
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Rating SPECULATIVE BUY ↑ <small>from HOLD</small>	Price Target A\$0.28 ↓ <small>from A\$0.43</small>
LGP-ASX	Price A\$0.16

Market Data

52-Week Range (A\$) :	0.16 - 0.42
Avg Daily Vol (M) :	0.3
Market Cap (A\$M) :	47.7
Shares Out. (M) :	298.1
Enterprise Value (A\$M) :	18.8
Cash (A\$M) :	40.3
Long-Term Debt (A\$) :	11.4

FYE Jun	2022A	2023A	2024E	2025E
Sales (A\$M)	12.4	19.9	34.7↑	47.5
<i>Previous</i>	-	-	34.1	-
EBITDA (A\$M)	(15.8)	(11.0)	2.9↑	6.3
<i>Previous</i>	-	-	1.7	-
Net Income (A\$M)	(17.3)	(13.2)	0.8↑	3.3
<i>Previous</i>	-	-	(0.2)	-
EV/Sales (x)	3.5	2.3	1.5	1.1



Source: FactSet

Priced as of close of business 1 May 2023

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 received a fee for its role as Lead Manager to Little Green Pharma's \$5m equity raising at \$0.19 on 24 March 2023.

Canaccord Genuity, and its associates, holds >1% of the issued share capital of LGP.AU.

Please refer to the important disclosure section of this report.

Approaching cash breakeven

Investment Recommendation

We believe that Little Green Pharma is now fully funded, and that cash flow breakeven should be achieved in the near term. We are forecasting >70% revenue growth in FY24, while its cost base should remain comparatively flat. Despite its recent challenges, the company has continued to execute on its business plan, it has a robust vertically integrated model, and it continues to hold strong market position in several emerging jurisdictions. We upgrade our rating to SPECULATIVE BUY (from Hold) with a DCF-based price target of \$0.28 (from \$0.43).

LGP has come out of a busy period that involved two equity raisings, and an upbeat quarterly. Key points worth highlighting include:

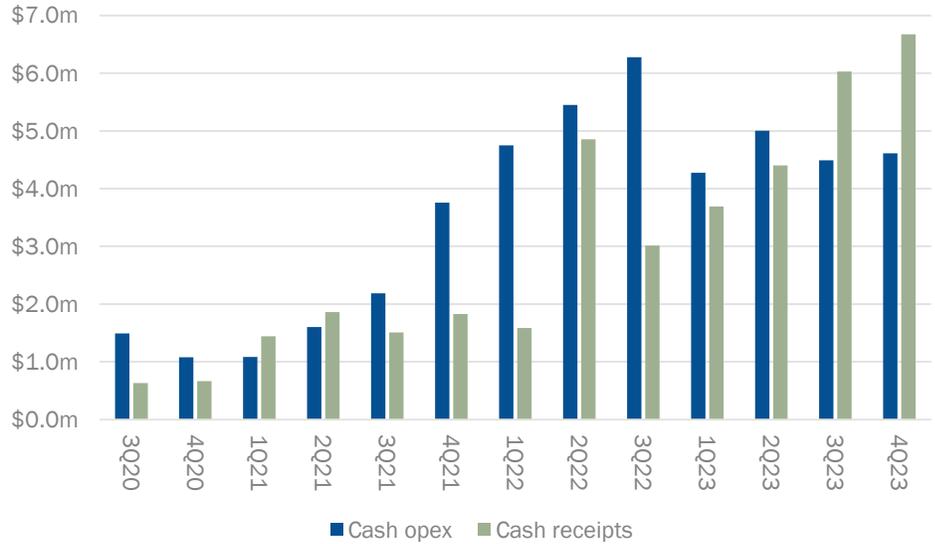
- Growth continues to surge:** LGP's 4Q23 (March quarter year end) showed cash receipts of \$6.7m, which was +121% on pcp, and +11% qoq. FY23 revenue was ~\$20m, which indicates that 4Q23 revenue was ~\$5.4m, which was +70% on pcp. Operating cash flow was -\$1.2m for the quarter, which is the best underlying result the company has achieved since 2020 (excluding R&D rebates).
- Flower still a major driver:** Flower sales in Australia grew 50% from the previous quarter, while the Denmark operations also saw a 25% increase of flower sales into Europe. Recent contract wins include flower sales into the United Kingdom and Sweden.
- COGS and opex remain flat:** The current structure of strong revenue combines very favorably with LGP's flat cost base. Although cash receipts were +121% on pcp, cash COGS were -30% on pcp and cash opex was -27% on pcp. Compared to the more recent periods, the combined cash costs (COGS plus opex) were -11% qoq. Noting the low COGS and strong growth, we highlight that cash gross profit margin was 51%, which is the highest on record and reflects the strong operating leverage within the business.
- Costs indicate a breakeven point approaching:** Costs are fairly fixed (as outlined above) and run at ~\$2.5m per month, plus an ~25% distribution fee in Australia. Based on this, we estimate the breakeven point for LGP is ~\$35.3m revenue. Based on the March quarter cash receipts, the company would need to achieve qoq growth rates of 7% through FY24 to achieve this on an underlying basis (excluding rebates) to break even by the end of FY24. The company has consistently achieved growth rates far higher than this over the last several quarters (22% compounding qoq growth in cash receipts over the last four quarters). In addition, we also expect > \$4m in rebates in the coming periods, so the company should achieve this milestone earlier, and we expect cash breakeven to occur within two quarters (possibly as early as this quarter depending on the timing of the rebates).
- Funding looks ok from here:** The company raised \$9m with two equity placements in FY23, and a further \$0.9m in an SPP. LGP ended the quarter with \$12.4m cash, after drawing down \$1.9m debt during the period. It has since made the final \$4.1m repayment to Canopy and flagged up to \$4.8m in rebates over the coming quarters. We assume no further debt being drawn down, \$2m being repaid (which is tied to the rebates), and have a closing bank balance of \$3.7m in FY24. In addition, the company holds property that could be sold that we estimate would be worth ~\$3m, and it could see some small reimbursement from its psychedelics spin-off. We have not assumed that the property is sold and do not believe the company needs to sell it, but we note that it provides optionality.

Figure 1: LGP Financial Summary

Profit & Loss (A\$m)	2022A	2023A	2024F	2025F	Valuation ratios	2022A	2023A	2024F	2025F
Sales Revenue	12.4	19.9	34.7	47.5	EPS	-6.5	-4.9	0.3	1.1
R&D incentive	2.6	2.4	4.8	0.3	P/E (x)	-2.5	-3.3	58.7	14.4
EBITDA	-15.8	-11.0	2.9	6.3	PER Rel - All Ords.	-116%	-121%	281%	-5%
Depreciation	-0.9	-0.6	-0.9	-1.0	PER Rel - Small Ind.	-116%	-122%	307%	2%
EBITA	-16.8	-11.6	2.0	5.3	Enterprise Value (\$m)	43.3	45.7	52.2	50.6
Amortisation	-0.1	-0.1	-0.1	-0.1	EV / EBITDA (x)	-2.7	-4.1	18.0	8.1
EBIT	-16.8	-11.7	2.0	5.2	EV / EBIT (x)	-2.6	-3.9	26.6	9.7
Net Interest Expense	-0.5	-1.5	-1.1	-0.7	DPS (AU\$ cps)	0.0	0.0	0.0	0.0
NPBT	-17.3	-13.2	0.9	4.5	Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
Tax expense	0.0	0.0	-0.1	-1.2	Franking (%)	100%	100%	100%	100%
NPAT (Normalised)	-17.3	-13.2	0.8	3.3	CFPS (cps)	-8.2	-3.6	-0.1	1.3
Significant items	-0.9	-0.3	0.0	0.0	P / CFPS (x)	-2.0	-4.4	-128.5	12.3
NPAT (Reported)	-18.3	-13.5	0.8	3.3					
					Profitability ratios	2022A	2023A	2024F	2025F
Cash Flow	2022A	2023A	2024F	2025F	EBITDA Margin (%)	-127.6	-55.4	8.4	13.2
Operating EBITDA	-15.8	-11.0	2.9	6.3	EBIT Margin (%)	-135.7	-58.8	5.7	11.0
- Interest & Tax Paid	-0.5	-1.5	-1.1	-1.7	ROE (%)	-31.8	-15.5	0.9	3.7
+/- change in Work. Cap.	-3.7	-1.0	-2.1	-0.7	ROA (%)	-25.0	-13.0	0.8	3.0
- other	2.8	3.7	0.0	0.0	ROIC (%)	-75.7	-33.9	4.4	9.0
Operating Cashflow	-17.2	-9.8	-0.4	3.9					
- Capex	-7.6	-1.8	-1.8	-1.9	Balance Sheet ratios	2022A	2023A	2024F	2025F
- Acquisitions/divestments	0.0	-9.1	-4.1	0.0	Net Debt (cash)	-4.4	-2.0	4.5	2.8
- other	0.0	0.0	0.0	0.0	Net Gearing (ND/E%)	-5.9%	-2.4%	5.3%	3.2%
Free Cashflow	-24.8	-20.7	-6.2	2.0	Interest Cover (x)	-46.6	-7.9	1.8	7.5
- Ord Dividends	0.0	0.0	0.0	0.0	ND/EBITDA (x)	NM	NM	NM	NM
- Equity/other	1.0	9.1	-0.3	-0.3	NTA per share (AU\$)	0.34	0.34	0.28	0.29
Net Cashflow	-23.9	-11.6	-6.5	1.7	Price / NTA (x)	0.5	0.5	0.6	0.6
Cash at beginning of period	40.3	20.1	12.4	3.9	FFOWA (m)	210.1	268.7	297.7	298.1
+/- borrowings / other	3.8	3.9	-2.0	0.0					
Cash at end of period	20.2	12.3	3.9	5.5	Growth ratios	2022A	2023A	2024F	2025F
					Sales revenue (\$m)	-26.6%	17.9%	73.9%	37.0%
Balance Sheet	2022A	2023A	2024F	2025F	EBITDA (\$m)	-4347.6%	-30.3%	-126.3%	115.6%
Cash	20.1	12.4	3.9	5.5	EBIT (\$m)	5291.9%	-30.4%	-116.8%	166.0%
Inventories	7.1	8.5	11.4	11.9	NPAT (\$m)	4657.5%	-23.9%	-106.1%	307.3%
Debtors	5.6	6.5	9.5	11.5	Adj EPS (cps)	2781.0%	-23.9%	-105.5%	306.7%
PPE	10.5	19.7	24.1	24.9	DPS (cps)	n/a	n/a	n/a	n/a
Intangibles	0.7	3.3	3.8	3.9					
Other assets	3.1	2.5	2.5	2.5	Interim Analysis	1H20A	2H20A	1H21A	2H21A
Total Assets	47.0	52.8	55.1	60.2	Revenues	1.3	1.8	5.6	6.8
Borrowings	15.7	10.4	8.4	8.4	EBITDA	-3.4	-2.9	0.2	0.2
Trade Creditors	3.2	4.5	8.3	10.1	EBITDA margin (%)	-256.7%	-161.1%	3.7%	2.4%
Other Liabilities	1.5	1.5	1.5	1.5	EPS	1.9	-9.0	0.2	9.3
Total Liabilities	20.5	16.5	18.3	20.1	DPS	0.0	0.0	0.0	0.0
NET ASSETS	26.6	36.3	36.9	40.1					
					Discounted Cash Flow				
Board of Directors / Substantial Shareholders					Cost of equity				12.0%
Board of Directors & Management	Shareholding			%	Cost of debt				8.0%
Fleta Solomon - Managing Director	24.9			8.4%	Net Debt/ Net debt + equity				20.0%
Angus Caithness - Executive Director	14.6			4.9%	WACC				10.7%
Michael Lynch-Bell - Non Executive Chair	2.1			0.7%					
Neale Fong - Non Executive Director	1.7			0.6%	Terminal Growth Rate				2.5%
					Per Share (AU\$)				\$ 0.28
Major Shareholders	Shareholding			%					
Thorney Investment Group	33.3			11.2%					
Gina Rinehart / Hancock Prospecting	26.7			9.0%					
Fleta Solomon - Managing Director	24.9			8.4%					
Top 20 Shareholders	76.6			28.5%					
Description									
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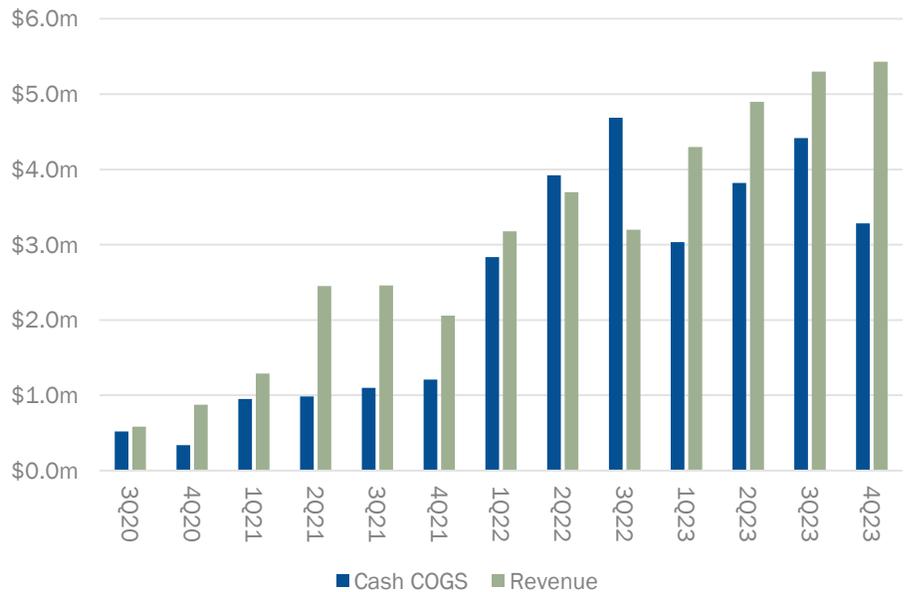
Source: Company Reports, Canaccord Genuity estimates

Figure 2: Cash opex is fairly flat, while cash receipts are growing strongly. This paints the picture of a very supportive earnings outlook if sales growth continues.



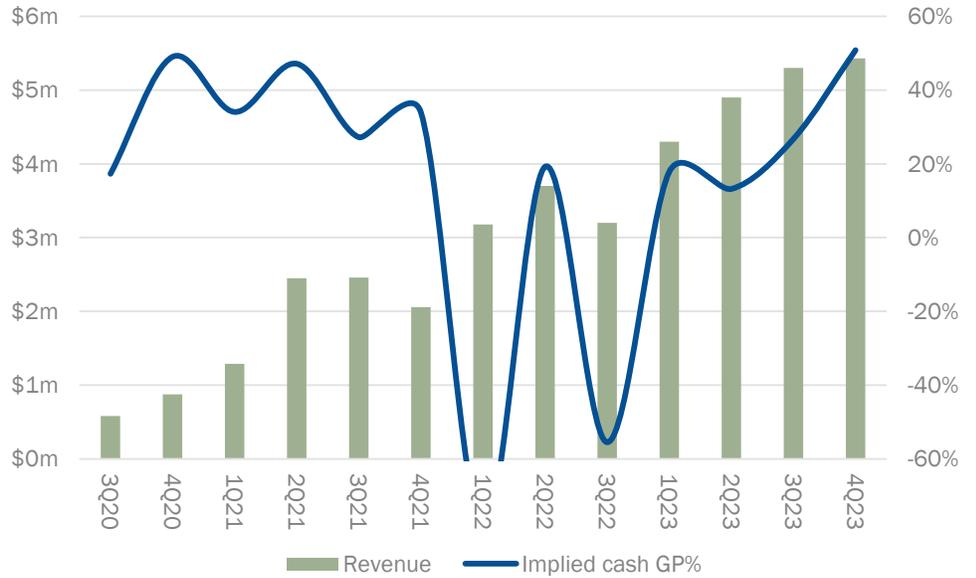
Source: Company Reports, Canaccord Genuity estimates

Figure 3: Similar to the opex chart above, the COGS doesn't increase too much either as revenue grows. Again, this supports rapidly expanding margins as scale is achieved.



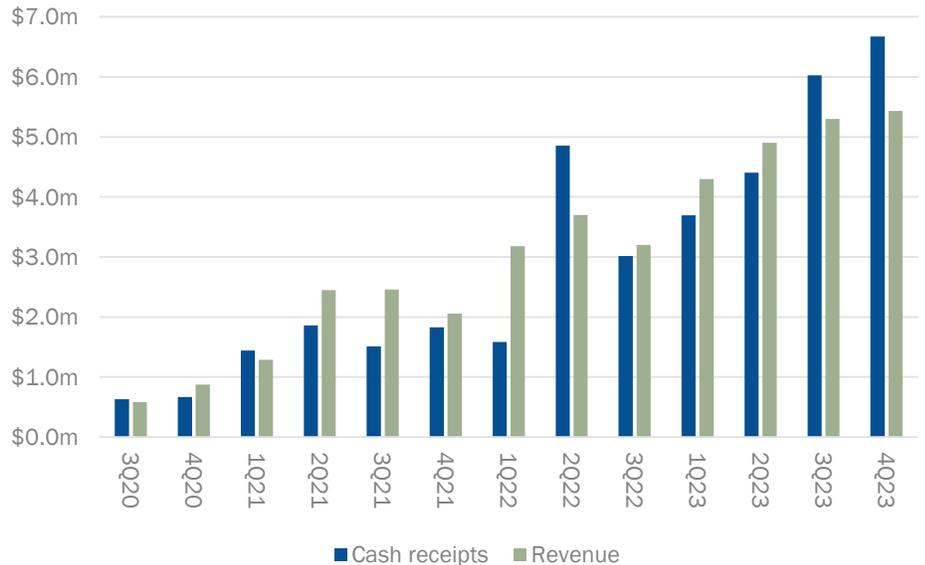
Source: Company Reports, Canaccord Genuity estimates

Figure 4: The implied cash GP% margin has grown quickly these last few quarters. Most of the costs are relatively stable, while revenue grows ahead.



Source: Company Reports, Canaccord Genuity estimates

Figure 5: The key driver of near-term success is the growth in revenue and cash receipts, in our view. The recent impressive trend will need to continue for material earnings to be achieved.



Source: Company Reports, Canaccord Genuity estimates

Appendix: Important Disclosures

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Investment Recommendation

Date and time of first dissemination: May 01, 2023, 16:28 ET

Date and time of production: May 01, 2023, 07:16 ET

Target Price / Valuation Methodology:

Little Green Pharma Ltd - LGP

Our \$0.28 price target is based on a DCF model, which assumes a 1.5 equity beta, 10.7% WACC and a terminal growth rate of 2.5%.

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:

Global Stock Ratings (as of 05/01/23)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	602	64.52%	21.76%
Hold	142	15.22%	10.56%
Sell	16	1.71%	0.00%
Speculative Buy	158	16.93%	45.57%
	933*	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.

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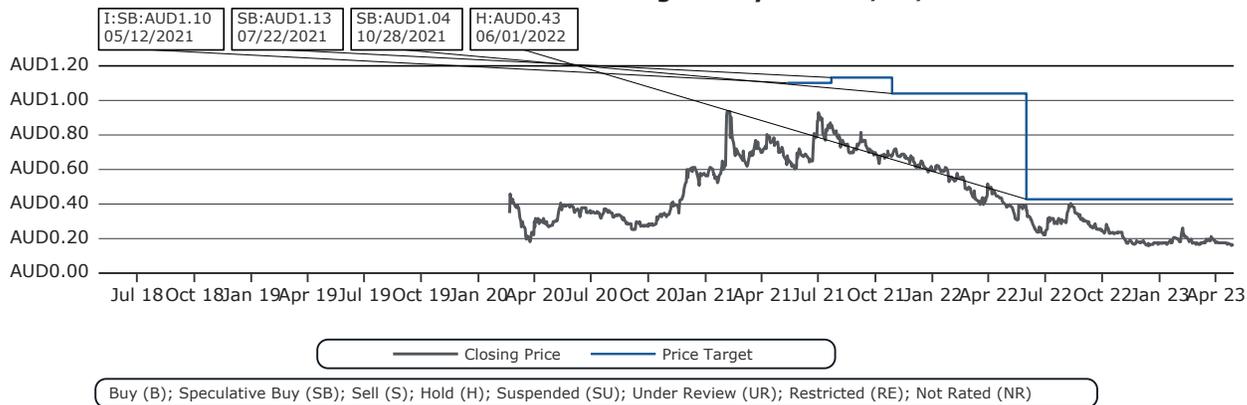
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Canaccord Genuity received a fee for its role as Lead Manager to Little Green Pharma’s \$5m equity raising at \$0.19 on 24 March 2023.

Little Green Pharma Ltd Rating History as of 04/28/2023



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