

Little Green Pharma Ltd
COLTS - Cannabis

Rating **HOLD**
unchanged

Price Target **A\$0.17**
unchanged

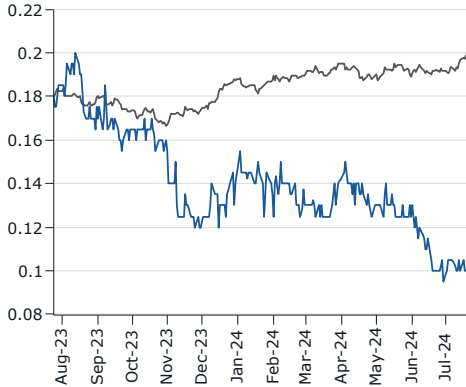
LGP-ASX

Price **A\$0.10**

Market Data

52-Week Range (A\$) :	0.09 - 0.20
Avg Daily Vol (M) :	0.2
Market Cap (A\$M) :	29.3
Shares Out. (M) :	301.8
Enterprise Value (A\$M) :	28.8
Cash (A\$M) :	4.3
Long-Term Debt (A\$) :	3.4

FYE Jun	2023A	2024E	2025E	2026E
Sales (A\$M)	19.9	25.6	29.8	35.5
EBITDA (A\$M)	(4.0)	3.4	0.2	3.2
Net Income (A\$M)	(7.9)	(0.5)	(3.0)	0.1
EV/Sales (x)	2.0	1.5	1.4	1.2



Source: FactSet

Priced as of close of business 22 July 2024

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

Please refer to the important disclosure section of this report.

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Grinding higher

Investment Recommendation

LGP reported its quarterly today and appears to have delivered a set of impressive results. Revenue grew +12% on pcp and uptake of the new flower product CherryCo looks positive with sales +19% qoq. Sales mix looks to have broadened out too, which, in our view, improves the quality of the result. We were looking for sustained signs of growth and an improved cash outlook at the last quarterly in April, and we found that here in the June print. LGP has now strung two consecutive quarters of record revenue with robust margins, and with the regulatory outlook presenting some future potential catalysts, we see potential for the market to get more constructive on the name. We currently have a HOLD rating and A\$0.17 target.

Quarterly highlights

- **Revenue impressive:** Revenue growth continued apace, as it registered a 12% growth on pcp following what was a robust 4Q24. On a qoq basis, revenue was flat; however, we believe this is a solid result given 4Q24 saw +35% qoq as some large orders landed. We currently forecast \$30m revenue for FY25 (+16%), and the company is already close to a run rate at this level.
- **Revenue makeup shifts a little:** Oil sales were a larger contributor in the period while flower sales pared back, albeit the CherryCo flower (launched in 4Q24) was a strong performer, growing 19%. Geographically, revenue splits were consistent in this period with the prior period though there were some movements in the sales mix with oils selling well into Europe (+65%) and Australia (+12%). We believe future growth opportunities lie in expanding Europe sales, with the first commercial shipment to France scheduled to occur in and around this time (late July).
- **Margins rebasing higher:** It was pleasing to see strong margins continue into 1Q25. While down marginally on the previous quarter, cash GP was firmly higher on a pcp view, rising 370bps. This is still below peak margins of 51%, which was obtained in 4Q23, but we are encouraged by the highest consecutive margins achieved to date and believe that margins have found a footing at this higher level.
- **Cash burn down from here:** Underlying OCF after backing out government grants tightened down to -\$0.4m from -\$0.9m in 4Q24. This was helped by a material cost saving on the staff/admin cost lines of ~\$0.6m. LGP ended the period with \$4.3m in cash against debt of \$3.4m, which is broadly unchanged qoq. \$1.9m of this debt is payable July 2025, so there is some potential tension on the balance sheet in the absence of further OCF improvements, or a debt refinance.

Potential catalysts and outlook

Legal progress continues with the US DoJ's public consultation phase closing on 22 July 2024. This will mark the next step in the proposed rescheduling of marijuana from Schedule I to Schedule III. While the impact of reclassification on the recreational market ultimately is unclear, progress in this regard would be an unprecedented event considering marijuana has held its Schedule I status since the enactment of the Controlled Substances Act in 1970. Headway made into this would compound on recent momentum in Germany's decision to legalise cannabis in Apr-24.

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Investment Recommendation

Date and time of first dissemination: July 22, 2024, 05:56 ET

Date and time of production: July 22, 2024, 05:56 ET

Target Price / Valuation Methodology:

Little Green Pharma Ltd - LGP

Our A\$0.17 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 somewhat dependent on one large German customer. Any issues with this particular contract could negatively impact LGP.

Customer demand: Customer take-up has been slow at times, but could accelerate again which would positively impact LGP's outlook.

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 07/22/24)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	1	33.33%	0.00%
Hold	1	33.33%	0.00%
Sell	0	0.00%	0.00%
Speculative Buy	1	33.33%	0.00%
	3*	100.0%	

*Total includes stocks that are Under Review

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BUY: The stock is expected to generate returns greater than 10% during the next 12 months.

HOLD: The stock is expected to generate returns from -10% to 10% during the next 12 months.

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*As of January 1, 2024, the Ratings History Chart will reflect the new Canaccord Genuity Ratings System as defined above.

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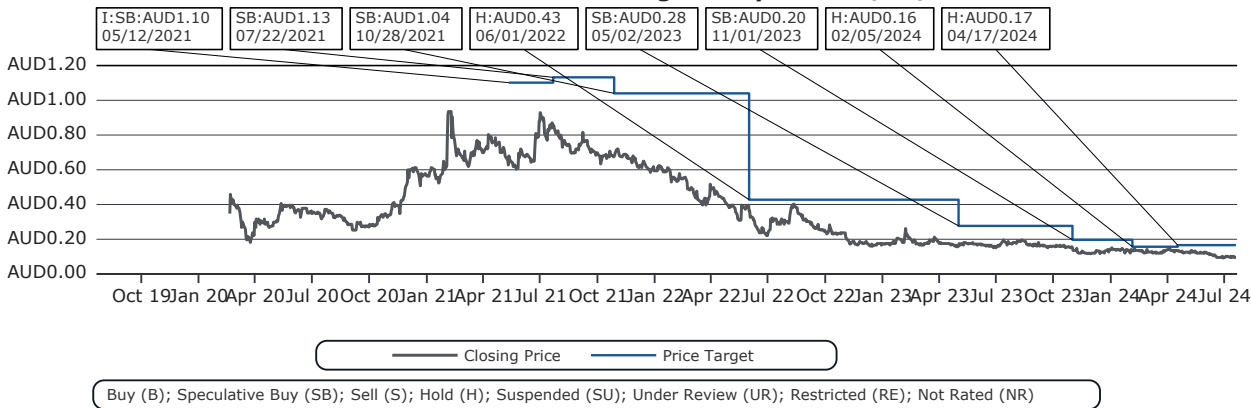
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Little Green Pharma Ltd Rating History as of 07/19/2024



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