

Equity Research: Healthcare - Cannabis

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LGC CAPITAL LTD. TSXV:LG

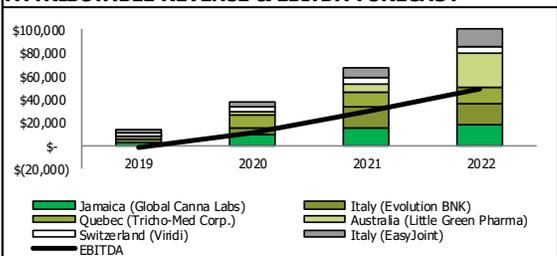
(Currency is CAD\$ & estimates are attributable, unless noted otherwise)

Last Price	\$0.10
Target Price	\$0.20
Potential Return	100%
Net Asset Value Per Share	\$0.25
52 Week Low / High	\$0.08 / \$0.25
Average Daily Volume (30-Day)	544K

CAPITALIZATION	Basic	Diluted
Shares Outstanding (M)	416.2	610.3
Market Capitalization (\$M)		\$41.6
Enterprise Value (\$M)		\$41.0
Last Reported Cash Balance (\$M)		\$2.9
Last Reported Total Debt (\$M)		\$2.3

LGC CAPITAL OPERATIONS	F2019E	F2020E	F2021E
Flower Produced (kg) - 100%	7,300	23,600	39,500
Revenue (\$M)	\$12.9	\$37.4	\$66.6
Cash Costs (\$ per gram)	\$1.03	\$1.09	\$1.04
AICC (\$ per gram)	\$2.30	\$2.30	\$1.64
EBITDA (\$M)	-\$1.4	\$10.4	\$29.2
FCF (\$M)	-\$14.0	-\$15.5	\$3.5
Total CAPEX (\$M)	\$9.4	\$21.3	\$14.9
CFPS	\$0.00	\$0.01	\$0.03
Cash At Year End (\$M)	\$0.6	\$2.8	\$2.3
Debt At Year End (\$M)	\$2.5	\$14.0	\$14.0

RELATIVE VALUATION	P/NAV	EV/EBITDA
	2019E	2020E
LGC Capital Ltd	0.41x	nm 3.9x
Cannabis Holdings Companies	n/a	29.6x 10.6x
Gold and Oil Royalty Companies	1.30x	9.5x 8.5x

ATTRIBUTABLE REVENUE & EBITDA FORECAST

MAJOR SHAREHOLDERS

Management & Insiders (21.3%)

DISCLOSURE CODE:

Disclosure: None (See back page for further details)

Source: Ubika, Capital IQ



Source: stockcharts.com

FURTHER INVESTMENT IN LITTLE GREEN PHARMA EXPANDS ITS PRESENCE DOWN UNDER

Investment in Little Green Pharma increases Australian exposure and potential upside. On May 22, LGC Capital announced a further investment in Little Green Pharma (LGP), an Australian licensed medical cannabis producer, for A\$5.5M from a non-executive founder. The investment brings the Company's ownership in LGP to 40.4% from 14.1%. The closing of this transaction is expected to be within 95 days of signing the agreement and is subject to TSXV approval.

Little Green Pharma brings first-mover advantage in Australia. Importantly, LGP is Australia's first and only local medical cannabis producer. Of note, LGP currently has 400 registered medical patients. While this may seem small, the Australian medical program is still in its early days, as there is ~6,400 patients in the program. For reference, the Australian government does not disclose where the remaining 6,000 patients source their cannabis from, however, we assume most Australian imports are from Canada, as ~1,500 kg was exported in 2018 ([Statistics Canada](#)). Refer to Figure 1 on Page 2 for a visual depiction of the growing Australian medical cannabis market.

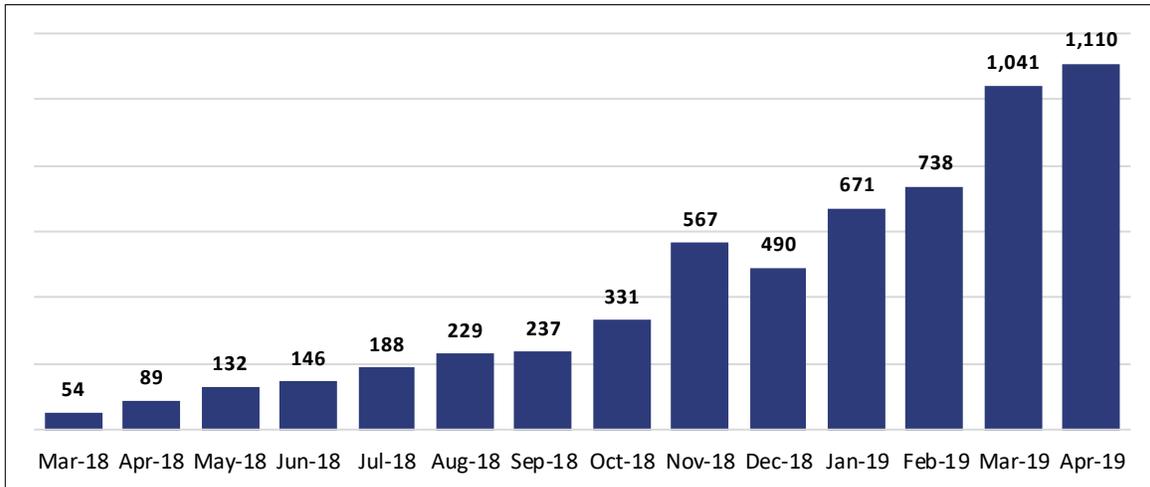
LGP is poised to become a leader in the emerging Australian medical cannabis market. We are forecasting that Little Green Pharma can achieve revenues of \$30.0M by F2022E (was \$11.2M), based on LGP reaching 200,000 sq. ft. (400,000 sq. ft. capacity). We believe that the Australian legal cannabis market is 2-4 years behind the Canadian market and that Little Green Pharma is positioning itself to become a major global producer that can rival Canadian LPs. LGP has international supply agreements for the German market and has plans to expand into the Asian market.

VALUATION

Accretive investment in LGP. We have updated our estimates to reflect the additional 25% stake in Little Green Pharma. Our NAV contribution for Little Green Pharma increased to 28% (was 15%). Overall, our NAVPS increased to \$0.25 (was \$0.23) and our F2021E EBITDA estimate increased to \$29.2M (was \$27.3M). For reference, refer to our new and old proportional NAV breakdowns on Figure 2 & 3 on Page 2.

Trades at a discount to peers. LGC currently trades at 3.9x our F2020E EBITDA estimate, a discount to cannabis holding companies and gold and oil royalty companies, which trade at an average of 8.5x and 10.6x, respectively. We believe this gap should close as LGC begins to make material cash flow.

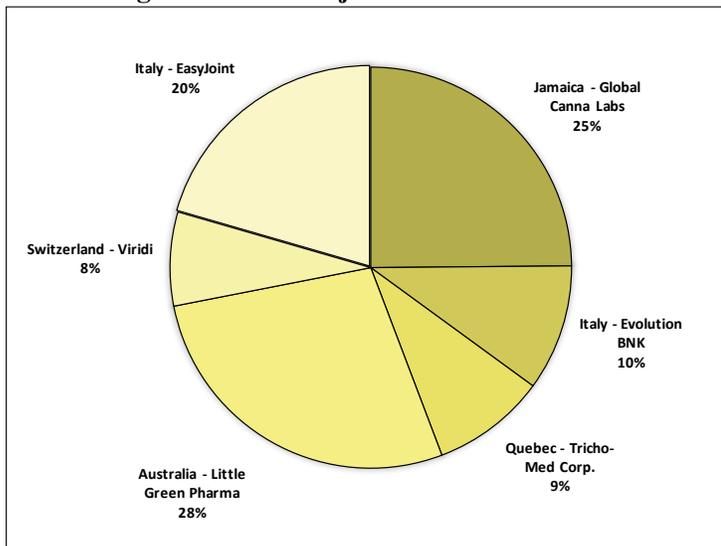
Figure 1: Monthly New Cannabis Patient Approvals (Australia)



Source: Australian Government Department of Health ([link](#))

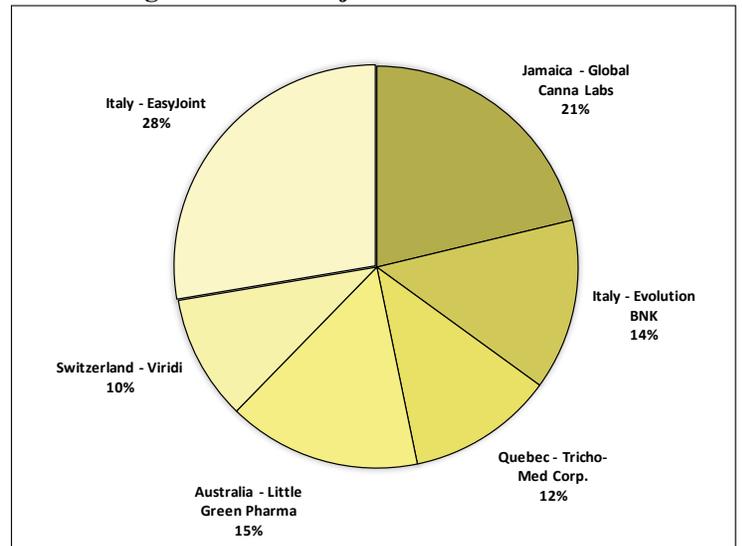
Figure 1 depicts a growth rate of New Patients in Australia of 19.5x from March 2018 - April 2019, this implies a compounded monthly growth rate of 26.2%.

Figure 2: New Project NAV Breakdown



Source: Ubika

Figure 3: Old Project NAV Breakdown



Source: Ubika

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Buy: Recommendation: stock is expected to appreciate from its current price beyond 20% in the next 12 months.

Neutral: Recommendation: stock is expected to trade in a narrow range from its current price level in the next 12 months.

Sell: Recommendation: stock is expected to decline from its current price level below 20% in the next 12 months.

U/R: Under Review.

N/R: Not Rated.

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