

GTEC Holdings Ltd. (GTEC:TSXV)

RECOMMENDATION: Buy

1 YR-TARGET PRICE: \$2.00

RISK RATING: HIGH

2nd License in Month Unlocks Provincial Retail Channels

SHARE DATA

Price (7/29/19)	\$0.40
Shares outstanding (basic)	159M
Shares outstanding (diuted)	203M
Market cap (basic)	\$63M
Market cap (diluted)	\$80M
Net Cash (debt) 2019E	\$5M
Enterprise Value (Diluted)	\$85M

FINANCIALS

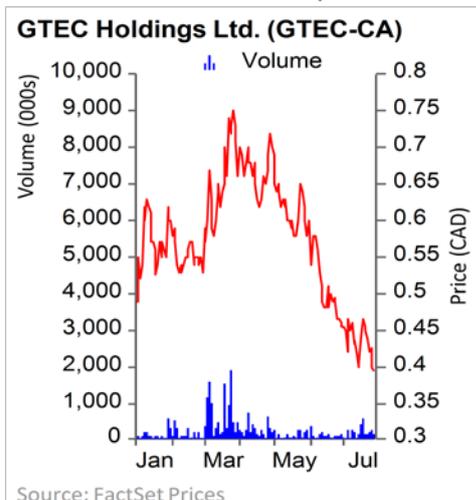
	2018A	2019E	2020E
Revenue (\$M)	\$0.1	\$13.1	\$73.5
EBITDA (\$M)	-\$10.4	-\$3.0	\$36.2
EPS (FD) (\$)	\$ (0.10)	\$ (0.02)	\$ 0.11

RATIOS

	2018A	2019E	2020E
EV/Sales	1472x	6.5x	1.2x
EV/EBITDA	n/a	n/a	2.4x
P/E	n/a	n/a	3.4x

VALUATION:

Recommendation:	Buy
One Year Price Target:	\$2.00
Valuation:	12.5x 2020E EV/EBITDA



ACC Receives Sales License from Health Canada

We view Health Canada's granting of a standard processing license and a sale for medical purposes license at ACC as another positive step forward for GTEC. The approval gives the company the ability to:

- (1) sell products directly into the provincial recreational supply chain,
- (2) make direct online sales to medical clients, and
- (3) gives the company's additional facilities (Grey Bruce and soon to be licensed Tumbleweed) access to recreational and medical supply chains through bulk B2B transfers to ACC.

We believe that over time the license will result in higher margins as the company should realize increased selling prices for its flower which offset a relatively small incremental cost associated with packaging.

Positive Catalysts Not Reflected at Current Levels

Importantly, ACC's approval represents another checked box for management in terms of the build out of the company's facility portfolio, and GTEC's second Health Canada license this month (Grey Bruce – July 8th). Despite these positive catalysts, shares continue to trade at a discounted valuation (2.4x our 2020E EBITDA vs. peers at 8.6x) and have not reflected recent news. While recent cannabis market dynamics have pressured the broad industry, we believe that GTEC's current levels represent a good entry point for investors who are willing to be patient during the buildout and ramp up of GTEC's other cultivation facilities: Tumbleweed - cultivation license expected in August and construction sites F20 and GreenTec Bio Pharma, both of which are on time for completion by year-end. In addition, GTEC may acquire a second Kelowna facility which could be online and licensed in early 2020, a deal we believe would be positive for investors (see our note published on July 23, 2019). Post these buildouts, GTEC will have annual production capacity in excess of 14,000 kg* which would put the company in the ballpark of larger cap peers. As such, we believe that as the company executes on its plan and delivers operational results the shares will re-rate higher and close the current valuation gap. We maintain our buy rating with a one year price target of \$2.00.

*Note: Our cultivation output estimate assumes that GTEC closes on the purchase of the recently announced Canopy facility.

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TENDER: The analyst recommends tendering shares to a formal tender offering

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NOT RATED (N/R): The stock is not currently rated

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BUY:	14
HOLD:	1
SELL:	0
UNDER REVIEW:	1
NOT RATED:	1
TOTAL	100%