



Revealed: My Top Marijuana Stock Pick for 2019

Description

2018 has been quite the year for Canada's marijuana sector.

The majority of pot stocks are up substantially, largely based on a nice first half of the year. Investors who sold in August or September did pretty well, and the sector surged to an all-time high in early October right before the drug was officially legalized.

It seems like legalization day was the turning point, since Canada's largest marijuana companies have gotten absolutely hammered since, falling anywhere from 30% to 60%. A number of different issues have hit the sector hard, including reports of consumer shortages, attacks from short-sellers, and a general stock market decline.

Simply put, investors just aren't as excited about the future of pot as they were before.

These investors are guilty of letting short-term fears override a massive long-term opportunity. Canada's pot market is going to be huge, and these companies will be well set up to expand to the United States [once it legalizes the drug](#). There's still a huge market out there waiting to be served. Nothing has changed from a few months ago.

Today is the time to load up on certain marijuana companies. Here's my favourite heading into 2019.

A game-changing transformation

Village Farms International (TSX:VFF) has struggled for years growing tomatoes, cucumbers, and green peppers, among other produce.

The company's vegetables are higher quality than the competition because they were grown in greenhouses, away from the elements. Despite this clear advantage, most years Village Farms has struggled to post any meaningful profits. Every now and again the price for tomatoes would spike and the company would enjoy a small boom period.

In short, it was a pretty lousy business.

The good news is the vegetable business prepared it pretty nicely for what looks to be a lucrative opportunity: selling pot. Village Farms already has the greenhouses, all the equipment, and staff that know how to grow things. Their B.C. greenhouses are also located near enough to major centres to ensure easy transportation. Transitioning to pot production was a no-brainer, so it signed an agreement with **Emerald Health Therapeutics**. Village Farms owns 50% of the joint venture called Pure Sunfarms.

After spending much of the last year getting permits and other permissions from the government, production is now well underway. There is currently 687,000 square feet planted and starting to grow, with plans to up that to a total of 1.1 million square feet. Approval to do so should come sometime in January 2019.

The investment thesis

One of the big knocks against pot stocks has been their outlandish valuations. Companies doing barely any revenues are being valued at more than a billion dollars.

Village Farms is extremely cheap versus its peers. It currently trades at 2.3 times book value and just 1.2 times sales. Remember, the price-to-sales valuation reflects vegetable sales, not marijuana.

In 2019, the joint venture projects a total marijuana harvest of between 46,000 and 52,000 kg. If it gets just \$1 per gram — remember, the retail price is closer to \$8-10 per gram, which indicates \$1 per gram is too conservative — we're looking at revenue of approximately \$50 million.

Analysts think this will translate into profits; they collectively predict Village Farms will earn \$0.33/share in 2019. That puts shares at 16 times forward earnings, which is a very reasonable valuation for a pot grower.

Finally, investors are getting a free option on the U.S. market. Village Farms owns 5.7 million square feet worth of greenhouses in Texas — assets that can easily be converted to pot production once the United States legalizes the drug. In the meantime, the company plans to start growing hemp in the United States — a market that could be worth up to US\$22 billion by 2022.

The bottom line

Village Farms offers marijuana investors an interesting growth package at a value price. A year from now, Pure Sunfarms could be the second- or third-largest pot producer in Canada, yet with a market cap of just \$252 million today, the market isn't giving the stock any credit for this potential. If it delivers, you'll be happy you bought today.

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