



My Top Marijuana Stock for 2019

Description

It has been a [wild ride for marijuana investors](#). The industry is still in its infancy, and as such, investors can expect continued volatility. Now well off their 52-week highs, it may be time to look at re-investing in the sector.

It's important to note, however, that most are still not yet profitable. Likewise, despite the recent downtrend, many are still trading at sky-high valuations. When looking at what pot stocks to invest in, there are a few criteria investors should take into account.

First, you need to have trust in management. The industry has been negatively impacted by some suspect activity. Investors need to believe that management has shareholders' best interests in mind. Second, look for a clear path to profitability. In the next couple of years, those that can't make a profit will be left behind. Finally, look at valuation ratios such as price-to-sales and enterprise value (EV) to earnings before interest, taxes, depreciation, and amortization (EBITDA).

With that in mind, my [top marijuana pick](#) for 2019 is **CannTrust Holdings** (TSX:TRST).

Top marijuana stock performer

In the past quarter, CannTrust has been a middle-of-the-pack performer. This might doesn't much considering that the majority of industry players have been clobbered. The Canadian Marijuana Index is down almost 40% in the past quarter. In comparison, CannTrust is down 42%.

Share price aside, CannTrust has been one of the better-performing companies. Unlike its peers, CannTrust met or beat analysts' revenue estimates in fiscal 2018. This is a sign of good execution. Adding to its reputation, it was named the "Top Licensed Producer of the Year" at the 2018 Canadian Cannabis Awards.

In the third quarter, revenue doubled, and the number of active patients grew 61% to more than 50,000. It's also becoming a medical marijuana leader. Health Canada estimates that CannTrust is capturing 36% of all newly registered medical cannabis patients

Best-valued marijuana stock

Not only is management trustworthy, but the company is also one of the best-valued pot stocks. Trading at only 5.22 times 2019 sales, it is one of the best bargains in the industry. The company is also profitable and is only trading at a price to forward earnings of 25.7. This is cheap when you consider revenue and earnings per share will grow by triple digits over the next couple of years.

High-growth stock

CannTrust has supply agreements with nine Canadian provinces to supply recreational cannabis. In the first quarter of 2019, its phase two expansion will increase its production capacity to 50,000 kg per year. The first cultivation from phase two is expected by the end of January.

There are, however, concerns about its phase three expansion. In October, the town of Pelham passed an interim bylaw that restricts the use of land for cannabis purposes for one year. Despite the potential delay of phase three, the company is still expected to achieve 100,000 kg of capacity by the end of 2019.

The company also announced its intention to list on the New York Stock Exchange. This has been a natural step for cannabis companies as they look to increase liquidity by attracting investors outside Canada. This will be a positive development and can be a catalyst for its stock price.

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Author

mlitalien

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