This Tiny Marijuana Stock Is a Better Bet Than Tilray (NASDAQ:TLRY) or Canopy Growth (TSX:WEED)

Description

Marijuana stocks have been on fire for much of the past year. In the run up to legalization, many of them climbed to eye-watering valuations from relative obscurity. If you're looking to invest in a weed stock now, you're probably a bit late.

The undeniable leader in this space is still Ontario-based **Canopy Growth** (TSX:WEED)(NYSE:CGC). South of the border, **Tilray** (NASDAQ:TLRY) seems to be the local favourite. Both have been exceptionally great investments for investors over the past few years, but they now trade at many multiples of their annual sales.

Tilray stock, for example, trades at 200 times trailing 12-month sales. Although those 12 months end right before marijuana was legalized in October, you can assume forward sales will be four times greater than last year and still arrive at a price-to-sales ratio of 50.

Meanwhile, Canopy Growth has already declared nearly a full quarter of legal sales. Assuming the company generates $400 million in sales throughout 2019, its current price ($61.48) is still 53 times annual sales. In fact, Canopy's market value (US$16 billion) is nearly as large as the entire global market for legal marijuana in 2019 (US$16.9 billion).

So, this isn't exactly a market for bargain hunters. But there are a few stocks that seem to be flying under the radar or have only recently arrived on the scene. One of those is Markham-based luxury cannabis retailer **Flowr** (TSXV:FLWR).

A vertically integrated, ultra-premium cannabis company, Flowr raised $27.31 million in an initial public offering on Toronto's Venture exchange in September last year. It hasn't reported its first quarter after legalization yet, but some experts believe it could break even this year.

Jefferies analyst Owen Bennett recently included Flowr in a basket of marijuana stocks that he believes could have between 20% and 40% upside in the coming years. The optimism seems to be based on Flowr's superior quality product and higher efficiency.

According to the company's chairman Steve Klein and chief executive officer Vinay Tolia, Flowr's products are unique because they're non-irradiated. Larger rivals (like Canopy and Tilray) need to irradiate their flowers to meet Health Canada standards. This could deteriorate the natural flavour and fragrance of the product.

Speaking to Motley Fool contributor Keith Speights, Klein said Flowr had another advantage over larger players — yield per square foot.

More yield per unit of space leads to lower costs. According to Klein's estimates, Flowr's yield could lead to production costs of $2 per gram, well below the average costs of larger producers. In fact, the team believes more production capacity could drive this yield higher in the coming years.

So, Flowr offers a high-end product that can be produced more cheaply than many major producers. Meanwhile, the company's market cap is only $580 million. If the company can deliver its profit margin and sales expectations this year, it could be one of the most lucrative bets in this crowded market.

Bottom line

Flowr's promises of higher quality, premium prices, and lower production costs are very attractive, but investors need to wait for the upcoming quarterly results (the first one after legalization) to see if actual performance holds up to expectations.

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1. Cannabis
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TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. NASDAQ:TLRY (Tilray)
3. TSX:WEED (Canopy Growth)
4. TSXV:FLWR (Flowr)

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