



Why I Wouldn't Touch Village Farms (TSX:VFF)

Description

Village Farms International (TSX:VFF)([NASDAQ:VFF](#)) has been one of the best performing pot stocks since the beginning of the year. Equity markets have been on fire, and many marijuana companies are performing well, but Village Farms' year-to-date 200% jump in share value dwarfs that of most of its peers.

As a result, the marijuana company has been getting an increasing amount of attention among investors trying to pounce on the growing cannabis market. Is Village Farms' recent performance a fluke? Or is the firm a good buy at the moment?

From vegetables to pot

Unlike many other Canadian pot companies, Village Farms has been around for a while. The firm owns some of the largest greenhouses in North America, which have historically been used to grow vegetables. Village Farms' venture into the cannabis industry is relatively recent.

The company decided to jump ship in 2017 in an effort to profit from the marijuana sector. Village Farms' first major move was to form a venture with **Emerald Health Therapeutics** (TSXV:EMH) called Pure Sunfarms.

Pure Sunfarms is on track to reach a production capacity of 75,000 kilograms per year by mid-2019 thanks to its Delta 3 Greenhouse. The joint venture is also planning to build a sister facility with a comparable production capacity.

Pure Sunfarms' recent strides helped convince investors that it Village Farms isn't just a stock promotion, as the independent firm Citron Research had published in a scathing online report last month. Citron Research' report, which set a target price of \$1 for Village Farms, had caused the pot stock's share price to drop by double digits.

Can Village Farms compete?

Although Pure Sunfarms' peak production capacity is competitive by industry standard, the question is whether Village Farms will be able to benefit from this. Village Farms only owns 50% of the joint venture, and while many other pot companies are already fully operational (though most are still in the process of racking up their production capacity), Pure Sunfarms isn't there yet.

Village Farms signed a deal to sell about 25% of the production from its greenhouses to Emerald Health, and the firm also has a provincial supply agreement with Ontario. However, in the competitive Canadian environment, that isn't nearly enough to make a mark in the market.

Village Farms also has footprints in the U.S., though, with a 5.7 million-square feet south of the border and an ambition to [break into the hemp market](#). Village Farms formed another venture with a small company in the state of Georgia to cultivate hemp. The company should start supplying various hemp derived products by next year.

Should you buy?

In my view, it is difficult to justify purchasing shares of Village Farms over some of its competitors. The Pure Sunfarms venture would have been a much stronger competitor had it come around sooner. But as time goes by, the market becomes increasingly saturated. Latecomers will have a hard time beating more established companies to the punch.

Further, it isn't clear whether Village Farms' hemp venture in the U.S. can make up for its shortcomings, although it is a move in the right direction. All things considered, though, I would stay away from Village Farms, at least for the time being.

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Author

pbakiny

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