1 Top Marijuana Stock to Buy in June

Description

It has been over six months since **Aphria** (TSX:APHA)(NYSE:APHA) saw its stock pummelled by the market after Hindenburg Research released an adverse report alleging it was engaging in fraudulent activity. While Aphria's stock has recovered since then, it's still down by 20% over the last year, creating an opportunity for investors seeking exposure to legal marijuana cultivation and the next regulatory development, which should boost cannabis stocks across the board.

Cannabis sales are poised to explode

The October 17 2019 deadline for the legalization of marijuana edibles, extracts and topicals is fast approaching, and they will become legal by no later than that date. Analysts already believe that the multitude of legal cannabis cultivators that have emerged since Canada legalized recreational consumption of marijuana are struggling to meet existing demand for dried flower and medical products.

That legalization of marijuana derivatives for consumption will cause demand for legally cultivated marijuana to sky-rocket.

You only need to look to Colorado, where marijuana-infused brownies and gummy bears have caused consumption to explode, to get a feel for the potential that the legalization of edibles will create in Canada. Indeed, ArcView Research believes that the edibles market for Canada and the U.S. will be worth US$4.1 billion by 2021, while consultancy Deloitte believes that Canada's edibles market alone is worth $1.6 billion alone.

Aphria is one of the best positioned of Canada's major marijuana cultivators to meet this surge in demand. according to its April 2019 Corporate Presentation, Aphria's Canadian facilities possess the capacity to produce 115,000 kilograms annually, or almost 13 times the 9,136 kilograms sold over the last 12-months.

The cannabis cultivator expects to boost its Canadian production capacity to more than double that to 255,000 kilograms once the required licences are approved, allowing it to meet the additional demand created by the legalization of edibles.

To put the growth potential that holds for Canadian cannabis cultivators into context, analysts at Canadian Bank of Commerce in 2018 estimated that the domestic legal marijuana market will be worth almost $7 billion by 2020. If Aphria can secure 20% of that market, which isn't an outlandish figure given that it's estimated that **Canopy Growth** has secured around 30%, it's easy to see its revenue expanding to $1.4 billion.

This is roughly 12 times greater than Aphria's trailing 12-month revenue, and would at its current market value see it trading at around 1.7 times its sales. That revenue figure doesn't include Aphria's overseas sales, which, along with a moderate projected price-to-sales ratio for a large-scale cannabis cultivator being anywhere between two to five times, indicates that the cultivator is very attractively valued.

Aphria's appeal is enhanced by its solid balance sheet, which, with cash of $104 million at the end of the fiscal third quarter 2019, indicates that it has sufficient resources to complete the expansion of its facilities including the volume of marijuana it can produce.

Putting it together for investors

While marijuana stocks may be in a bubble and the long-term outlook for many cultivators may not be as positive as some pundits would have investors believe, there are signs of significant growth ahead. That, along with the legalization of edibles, will give sales a healthy lift that will benefit the leading cultivators such as Aphria and Canopy, by capacity. That will not only translate into higher earnings, but also boost their stock. Aphria appears to be the most undervalued in comparison to its peers, meaning that it offers the most potential upside.

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Date
2025/09/28
Date Created
2019/06/07
Author

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