



Revealed: My Top Marijuana Stock Pick for 2019, 2020, and Beyond

Description

Although it's been a tough few months for the marijuana sector, it's easy to see why long-term investors are still bullish.

Many of the pot stocks currently plunging have been plagued with poor short-term results — something every serious investor knows not to take too seriously. While there are a few producers who have surprised the market by posting small quarterly profits, some of the larger marijuana companies haven't been able to get anywhere close to profitability.

These companies are still making big investments in their growing operations, their staff, and their brands. They're playing a long-term game while the market rewards short-term results. In other words, if you're still a believer, now is the time to buy.

Let's take a closer look at my favourite stock in the sector — a company I think still has loads of potential behind it.

Enter Village Farms

I first recommended **Village Farms International** (TSX:VFF)([NASDAQ:VFF](#)) [as my top marijuana stock pick](#) back in December 2018. I liked the company's already existing greenhouses as a cheap way to ramp up pot production, and I was definitely bullish on the stock's valuation.

Shares are up more than 300% since that article was published.

Despite the big move, I still like Village Farms shares today for a few different reasons. The biggest one is the ability to continue to scale up its marijuana operations quite easily. Currently, the company has dedicated 2.2 million square feet of greenhouse space to its cannabis growing joint venture with Pure Sunfarms. This should produce approximately 150,000 kg of marijuana each year, although it won't get to full production until 2020. The joint venture also has options to convert Village Farms's third Delta-based greenhouse to marijuana production, which would more than double current output.

We're looking at potential of more than 300,000 kg of marijuana production annually. That's a huge number.

Secondly, despite making a great deal of progress, Village Farms still hasn't gotten to the point where it can sell marijuana to retailers quite yet. It has a Standard Processing Licence from Health Canada, but the real prize will be when the company is allowed to sell directly to retailers. It already has an agreement with the Ontario Cannabis Store, which will commence when Village Farms gets the proper licence. That should happen sometime during the current quarter.

And then there's the potential in the company's U.S. operations. Village Farms owns 5.7 million square feet of greenhouse space in Texas — space that is slowly being converted from vegetable to hemp production. Growing hemp, which was recently legalized in the U.S., will allow the company to enter the CBD oil market by establishing relationships with retailers. Remember, Village Farms has been selling vegetables to big retailers for years now. It has the contacts and the reputation to make this a lucrative business.

Valuation

Despite the run-up in price, Village Farms shares aren't terribly expensive. Especially when you compare the company to its peers.

Let's look at the price-to-earnings ratio first. Village Farms trades at 37 times trailing earnings. That's expensive when compared to most other stocks, but cheap for the marijuana space. Remember: most of its competitors aren't actually making money.

Now, let's look at analyst expectations for next year's earnings. This is when the stock gets downright cheap. Analysts expect the company to earn \$1.04 per share in 2020. The stock currently trades hands at just over \$15 per share. This puts the stock at just a 15 times forward P/E ratio.

No, you didn't read that wrong. That's an incredibly cheap forward P/E ratio. There are Canadian blue-chip stocks that aren't that cheap.

The bottom line

Village Farms has it all. The company is profitable today, has a path to much greater profitability tomorrow, and it trades at a downright cheap valuation. Don't let the [big move in the stock scare you](#); this company could easily go much higher.

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