



Investors: Is This Cannabis Stock on the Verge of a Breakout?

Description

Shares of **The Supreme Cannabis Company** (TSX:FIRE) have generated marginal returns since listing as a public company in June 2017. The stock closed trading at \$1.35 per share on June 9, 2017, and is currently trading at \$1.38 per share at writing.

It reached an all-time high of \$3.04 in January 2018, and it looked like FIRE shares were making an upward move in early 2019, but the stock has fallen 37% in the last six months. The cannabis stocks are undergoing a period of correction. The **Horizons Marijuana Life Sciences Index ETF** has fallen 40% since March 2019.

The cannabis stocks were overvalued and have come crashing down. Here we look at the valuation of FIRE as well as its revenue and earnings growth to determine whether the stock is a good bet at the current price.

Overview

Supreme Cannabis has a diversified portfolio of cannabis products. Its portfolio includes 7ACRES, Supreme's wholly owned subsidiary. 7ACRES is a licensed producer with a 440,000 square feet cultivation facility in Ontario.

Supreme's document states, "Through 7ACRES, Supreme Cannabis grows premium cannabis flower and utilizes proprietary growing methodology resulting in an exceptional consumer experience. From the genetics selected to maximize aroma and visual appeal, to cultivation methodologies that prioritize subjective quality over yield and proprietary post-harvest drying and curing practices, 7ACRES premium cannabis flower and products were designed with the intention to maximize consumer enjoyment."

Strategy for domestic and international markets

Similar to other cannabis companies, Supreme Cannabis is also optimistic about the tremendous

growth opportunity in the global and domestic medical marijuana market, and aims to grow sales via several partnerships.

In June 2018, Supreme invested in Medigrow, a licensed producer of cannabis in the Kingdom of Lesotho. It also signed a contract with Malta Enterprises that will see it obtain a cannabis production license in Malta. This partnership will help Supreme Cannabis gain a foothold in the growing [medical and wellness marijuana market in Europe](#).

Strong revenue growth

Supreme Cannabis has experienced strong revenue growth as a public limited company. In the fiscal third quarter of 2019 (ended in March), it reported sales of \$10 million, a rise of 382% year over year.

This revenue growth was driven by increased production at its 7ACRES facility and strong demand for the company's premium dry cannabis flower product.

Supreme Cannabis also experienced an uptick in sales volumes in the third quarter. Analysts expect the company sales to rise by 440% to \$19.14 million in the fourth quarter. This will mean revenue of \$40.77 million in fiscal 2019, a growth of 360.4% year over year. Analysts expect sales to rise 267% to \$149.63 million in 2020.

While still unprofitable, FIRE will rapidly improve the bottom line going forward. Analysts expect the net margin to rise from -42% in 2019 to 20% in 2021. This robust margin improvement will attract investors.

Verdict

Supreme Cannabis is currently valued at \$464 million, about 11.6 times 2019 sales, which isn't not too expensive given the valuation of peer cannabis companies. **Aurora Cannabis**, **Canopy Growth**, and **Hexo** are currently valued at 30, 18 and 22-times sales, respectively.

FIRE has tremendous upside potential. Analysts have a 12-month average target price of \$3.01 for the stock, which means FIRE is trading at a discount of 114%.

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