Why WeedMD (TSXV:WMD) Stock Rose 6% in August

Description

This cannabis stock reported cultivation costs of $0.96 per gram — a 30% improvement over the first quarter of 2019, but it still didn't sustain investor enthusiasm throughout August. Here's why.

WeedMD (TSXV:WMD) reported earnings on August 28. Before the earnings announcement, the stock rose 6% to $1.20 on bullish investor sentiment, but the stock did not maintain this price momentum. The ultimate reason the stock's price did not appreciate more in August is due to the relatively low sales versus weed powerhouses such as **Canopy Growth**.

Larger pot stocks like Canopy Growth have poured significantly more money and debt into building large pot empires quickly. Nevertheless, smart cannabis investors are bullish on WeedMD, and for a good reason. Compared to more expensive peers like **Cronos Group**, WeedMD is superior in many ways. Cannabis investors should look for two things before deciding to purchase shares in a marijuana stock: cost competitiveness and sales performance.

Cost competitiveness

The profitability of a company in any industry depends on the cost of production. The cost of production will determine the price at which the company can compete for sales. Unfavourable Canadian climate in which to grow the marijuana challenges the cannabis industry.

In response, competition is fierce among cannabis companies to achieve the lowest production cost per gram of marijuana to attract investor capital. WeedMD decreased its weighted average cost per gram, inclusive of all expenses, by 50% between the second quarter of 2018 to the second quarter of 2019.

WeedMD's decline in production costs are impressive. For example, the Cronos Group has been struggling to bring down its production costs to reasonable levels. In fact, the company's cost of sales per gram before fair-value adjustments increased 12% to $3.01 over the prior quarter.

Cannabis investors should take note of WeedMD's superior efficiency over the more expensive Cronos

Group stock, which currently sells at $15.12 per share.

Sales performance

Sales performance is also a major highlight during cannabis earnings. Because cannabis legalization in Canada is still new, this quarter's earnings are essential to separate companies with strong sales from weak sales.

For the three months ended June 30, WeedMD increased net dollar worth of sales by 139% over the previous quarter. Even better, the recorded net sales of $8 million is a 282% increase from the same period last year.

In weight, WeedMD sold nearly 2,000 kilograms of dried cannabis — an increase of 150% versus the previous quarter. For comparison, Cronos Group sold 1,584 kilograms of marijuana during the same quarter — a mere 43% increase over the first quarter of 2019.

Foolish takeaway

Cannabis stocks have been volatile since official marijuana legalization in Canada. Bullish investor sentiment has left many popular pot stocks, including Canopy Growth, overvalued. Understanding this, Canadian investors should take care that they do not purchase shares in one of these stocks.

Instead, individual Canadian investors should focus on cheap marijuana stocks with growing profit margins and rapidly improving sales performance. WeedMD is a top pot stock that could see tremendous returns over the next year.

At the current share price of $1.11, Canadian investors can pick up 100 shares for $111, which could quickly grow to $1,000 in the next year.

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