Why Village Farms International Stock Rose 22% in August

Description

A superior cost of production per gram is the top reason investors poured money into **Village Farms International** (TSX:VFF)(NASDAQ:VFF) in August. For the same reason, TFSA investors should not be shy about purchasing Village Farm stock to hold for the long term.

Village Farms reported earnings of 20 cents per share in August, causing shareholders to celebrate one of the highest-earning cannabis stocks on the **Toronto Stock Exchange** (TSX). The stock price surged 22% after the announcement.

However, the gains didn't last even until the end of the month. Village Farm's stock price is now trading back at its value before earnings at under $15 per share.

In the past 12 months, Village Farms has soared over 107% on superior earnings results. At just over $14 per share, cannabis investors should snap up shares in Village Farms before the next price surge – because that rise does stand a chance of lasting.

Village Farms beats competitors

Recent cannabis earnings have been separating the competitive firms from the losers. Village Farms surprised investors in August on better-than-expected earnings results. **Neptune Wellness** and **The Green Organic Dutchman** are two struggling cannabis stocks that failed to demonstrate sales growth following marijuana legalization in Canada.

Ultimately, Village Farms has gained investor confidence that the company can compete among the first movers in the cannabis industry. Unlike Neptune and TGOD, Village Farms doubled sales to $32.3 million and lowered cost of production to an industry low of $0.65 per Gram.

With an EBITDA margin of 78%, the stock undoubtedly rose in August due to the company´s superior management.

Village Farms rises 22% and then falls by the same

TFSA investors should take note of the sharp rise and subsequent fall of Village Farms. Earnings reports are a volatile time for stocks. Often, smart investors can catch a good deal on downward overreactions to an earnings miss.

On the other hand, Canadian investors should avoid buying on an exaggerated upward price response.

If TFSA investors had bought on the 22% rise in the stock price, they would be sitting on an equal capital loss today without the comfort of a substantial quarterly dividend payment to console them.

Timing the market is difficult, if not impossible. But, if knowledgeable TFSA investors keep in mind typical stock price behaviour around earnings announcements, they can make educated decisions about buying stocks on a discount. The trick is to avoid upward reactions and gravitate toward picking up stocks on price declines.

Foolish takeaway

Cannabis markets have been volatile, but the stocks will now start gravitating toward their true market valuations over the next year or two. This means that TFSA investors need to identify underpriced cannabis stocks and invest as quickly as possible.

Cannabis is a high-growth industry that has not yet started paying dividends, but it does have a great deal to offer in the way of capital gains for savvy investors. Village Farms is certainly a strong competitor in the cannabis space.

While it may not be as cheap as the impressive **Supreme Cannabis Company**, Village Farms is still a must-own cannabis stock in every Canadian´s long term savings accounts.

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