



## Is it a Good Time to Buy This Cannabis Stock Valued at \$1 Billion?

### Description

Shares of leading cannabis company **Charlotte's Web Holdings** (TSXV:CWEB) are trading at \$22.78 per share. The stock was publicly listed in September 2018. It rose from \$14.45 in September last year to \$33.77 in April 2019. CWEB is trading 116% above its 52-week low and 33% below its 52-week high.

Charlotte's Web is a market leader in the production and distribution of hemp-based CBD (cannabidiol) products. It's a vertically integrated company and is focused on creating hemp health supplements.

So, is the stock a good buy at the current price? Let's have a look at CWEB's revenue and growth drivers.

### Solid revenue growth

CWEB [grew sales by 74%](#) from \$40 million in 2017 to \$70 million in 2018. Gross profit rose 75% from \$30 million in 2017 to \$52 million in 2018. The gross margin was 75% of sales. Adjusted EBITDA rose from \$14.3 million in 2017 to \$21.1 million in 2018.

In the second quarter of 2019, CWEB sales grew 45% year over year to \$25 million. The gross margin was 75% at \$18.8 million. Adjusted EBITDA accounted for 16% of sales at \$3.9 million, while net income was 9% of revenue at \$2.2 million. CWEB reported earnings per share of \$0.02.

In fiscal 2019, CWEB estimates sales between \$120 million and \$170 million. The EBITDA is forecast between 30% and 35% for 2019.

### Why is CWEB management optimistic about long-term growth?

Sales from retail outlets accounted for 53% of total second-quarter sales for the firm. The company has increased total retail locations that carry its products from 1,926 in the second quarter of 2018 to 7,871 in the second quarter of 2019. It is optimistic about growth, as the FDA continues to work with the hemp industry on product regulations.

During the earnings call, company CEO Deanie Elsner stated the following:

“We have been experiencing increased sales through both our e-commerce and retail sales channels. Top tier mass retailers are entering the market as several national grocery and drugstore brands have announced their CBD plans. The majority of these are now carrying Charlotte’s Web products. This is a significant development for the hemp CBD category.”

## Focus on the retail health channel

We have seen that CWEB aims to gain traction in the cannabis health and wellness segment. Its products support Americans with a variety of needs. CWEB’s products support people experiencing exercise-induced inflammation. It has claimed that 183 million Americans exercise and are likely to feel effects of body strain.

Further, CWEB’s products also look to provide solutions for healthy sleep cycles and stress. Around 66.7 million Americans experience insomnia, while 40 million are diagnosed with stress disorders.

The company has increased its retail uptake in the natural health channel. Several leading retailers such as **Kroger** and **CVS** have added Charlotte’s Web products in the second quarter.

## The verdict

Cannabis companies are banking heavily on the growing demand for products in North America and international markets. In order to support this demand, CWEB has increased its total acres planted for 2019 to 862 from 300 at the end of 2018. The hemp harvested last year from 300 acres totaled 675,000 pounds.

In the last quarter, CWEB introduced new products, such as the hemp-extract CBD gummies and a new 12 SKU pet product line. It has signed up distribution partnerships for its pet line with Pacific Pet and Pet Food Experts.

CWEB remains confident of gaining traction, as consumer awareness and interest in CBD continues to grow. It expects to onboard large retailers across several locations in the coming months. The company is valued at \$1 billion, which is 6.7 times 2019 sales. The valuation is not too expensive compared to those of peer companies.

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