The Top Value Stock in Cannabis

Description

Investors who have wanted to get into the cannabis industry the last few years may not have had the chance due to the astronomical valuations.

While some could argue the prices for these companies are justified because of the incredible growth potential, it is still tough paying billions of dollars for companies that barely have $100 million in revenue.

There are some companies that have been flying under the radar, however, that have much better bang for their buck, since the stocks aren't as mainstream.

These companies offer investors the best chance to get exposed to the growing industry at a valuation that is considerably reasonable.

The one cannabis stock I think has the most value is **Zenabis Global** (TSX:ZENA).

Zenabis is a small-cap producer that was created as a result of the reverse takeover of Bevo Agro Inc by Sun Pharm in early 2019. Currently, its market cap is about $200 million.

Its current production capacity is 54,000 kg, which is a large amount for a company the size of Zenabis.

Looking at many of its peers, Zenabis has considerably more production capacity than companies with similar market caps. Conversely, it also has similar production capacity to companies that have market caps much higher than Zenabis's.

It has four licensed facilities: two in B.C and two in the Maritimes. Many of the facilities have increased production capacity available once the company has the licences to allow it.

Its operations are impressive, consistently harvesting more weight than expected and doing it at extremely cheap cash costs of cultivation at roughly $0.78 per gram.

It has numerous brands to attract medical customers, regular recreational customers, and those users seeking a premium product. Through its brands, it currently sells dried cannabis and pre-rolled joints with oils and sprays launching in the near term.

Zenabis has been busy lately making tons of deals; on the recreational side, it just signed a deal with the OCS this week, bringing its total supply agreements up to nine provinces and one territory.

On the medical side, it has made two huge deals: one with Pharmasave to predominantly supply it with oils, and another deal with Shoppers Drug Mart to supply it with medical cannabis.

It’s also expanding internationally like many of its peers, having already made numerous international agreements to sell cannabis as well as oils with countries in Europe and South America.

It’s a well-run company that is aligned with shareholder values. The founders and insiders own more than 52%, which is very reassuring for investors who know management has a ton of incentive.

It is focused on maintaining its balance sheet, increasing its production capacity, finding new channels for distribution, and perfecting its cultivation process.

It did $25 million in revenue for the second quarter; on an annualized basis, that would give Zenabis a price-to-sales ratio of just over two times. That is a significant discount to many of the other cannabis stocks out there, especially the large caps.

As well as being fairly valued, the company is also conservative with its finances, it currently only has $142 million in debt, while also having $62 million in cash, bringing net debt to around $80 million.

Zenabis is one of the best opportunities for investors seeking cannabis stocks, because it allows investors to get it for a reasonable valuation. Most companies’ valuations are still astronomical, but looking through the numbers of Zenabis, its price is more than justified.

Investors should get in as soon as possible though, because the discount the stock is offering may not be around forever and you don’t want to miss out on this chance.

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