Investors: 1 Cannabis Stock That Is Undervalued

Description

We have seen cannabis stocks crash and burn over the last 12 months. The high valuations of cannabis companies spooked investors, resulting in massive sell-offs after recreational sales were legalized last October. Though stocks have significantly corrected and are trading well below the 52-week lows, many of them are still expensive.

The high growth rates of cannabis stocks have sent valuations soaring. But what if I told you there is one stock that is trading at a cheap valuation? Yes, even the marijuana space has an undervalued company.

Zenabis Global: A brief history

Zenabis Global (TSX:ZENA) is a Canada-based marijuana producer. It owns around 660,00 square feet of indoor facility space as well as 2.1 million square feet of greenhouse space for cannabis production.

Its operations are currently focused on Canada's east and west coasts, and the company is eyeing domestic distribution and international exports pending regulatory approvals. At full capacity, ZENA will be able to produce 479,300 kg of dried cannabis annually.

According to company presentation, "On January 8, 2019, Bevo Agro Inc. (a Canadian company previously listed on the TSX Venture Exchange under the symbol BVO) acquired all of the outstanding shares of Sun Pharm Investments Ltd. by way of a three-cornered amalgamation, and changed its name to Zenabis Global Inc."

Growth and revenue metrics

Shares of Zenabis are trading at $1.06, which is 14% above its 52-week low and 84.5% below its 52-week high. Similar to peer cannabis companies, Zenabis too experienced a severe correction over the last year or so.

Zenabis is estimated to grow revenue by 128% to $299.47 million in 2020 and by 60% to $478 million in 2021. Sales are estimated to reach $131.28 million in 2019. Comparatively, Zenabis is estimated grow earnings by 262.5% in 2020, which is the year it will also post an adjusted profit.

Compare this to ZENA’s forward price-to-earnings multiple of eight, and we can see that the stock has significant upside potential. Zenabis has a market cap of $216 million, which is just 1.64 times 2019 sales. This is really low compared to the valuation of peer cannabis stocks.

What is ZENA’s key strategic focus

We know that Zenabis is a licensed cannabis producer. The company is focusing on projects to convert or expand three cannabis manufacturing facilities and one facility for extraction and research and development. On the completion of this project, ZENA will be a large-scale, vertically integrated, low-cost cannabis producer.

ZENA will also be able to expand its product and brand portfolio. It aims to become one of the largest and most efficient producers of medical and recreational cannabis. We can see here that ZENA is able to cultivate cannabis at a low cost of $0.78 per gram.

In the medical space, Zenabis has partnered with Shoppers Drug Mart to supply several products, and it also has a deal with Pharmasave to primarily supply oils.

Zenabis will be able to further expand its product line once edibles, vapes, and concentrates are legalized in October 2019. The company is expanding into international markets. In April this year, ZENA entered a three-year agreement with Farmako, which will help the former gain a foothold in Germany.

ZENA is still a small-cap company and has significant potential for growth and expansion. Investors may also be rewarded looking at the company’s cheap valuation at the current price.

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