1 Under-the-Radar Cannabis Stock to Consider Buying

Description

The marijuana industry continues its inexorable march forward, particularly in the lucrative U.S. market. In late May, Illinois became the latest state to legalize recreational marijuana by passing bill HB 1438. The piece of legislature was officially signed into law in June.

This development is just the latest in an ongoing transformation within the cannabis industry, which will yield billions of dollars in sales in just a few years.

For Canadian investors looking to profit from the U.S. cannabis market, one option to consider is **Harvest Health & Recreation Inc** (CNX:HARV).

One of the largest footprints in the U.S.

One reason Harvest could be an attractive proposition is simply its multi-state presence and the number of stores it owns. As of late June, the vertically integrated cannabis company had the rights to about 210 facilities in the U.S., including 135 retail locations, across about 17 states.

While many other firms can boast a multi-state presence comparable to that of Harvest, none possesses the rights to nearly as many facilities. This factor makes Harvest — in its own words — a cannabis company with one of the largest and deepest footprints in the U.S.

Harvest achieved its current position in the market largely by way of acquisitions. The latest of these — officially approved by the company's shareholders during a meeting in June — was the acquisition of Verano Holdings Inc. Verano, one of the largest vertically integrated licensed operators of cannabis facilities, gave Harvest the rights to about 200 facilities across 16 states, including 123 dispensaries.

The all-stock transaction was valued at approximately USD$850,000,000. For a little while, this transaction was the largest acquisition in the U.S. cannabis market.

Another significant acquisition Harvest made this year was its deal to acquire CannaPharmacy, Inc., a vertically integrated company that operates primarily in four eastern states, namely Maryland, Delaware, New Jersey, and Pennsylvania.

These acquisitions have prepared Harvest to handle the rise in demand for cannabis products better than most of its peers. The firm likely has access to more consumers than almost any of its competitors.

But how has Harvest performed so far?

Financial results

Last year, Harvest generated revenues of about USD $47 million, or about CAD $61 million, representing a 105% increase from 2017. The firm also posted a gross profit margin of 57%, although that was down about 3% from 2017.

The company's net loss of about USD $67 million was a significant drop from its 2017 net profit of $USD $3,591,000. Harvest's latest reported financial results, Q2 2019, showed that the company is making headway.

Its revenues of USD $26.6 million represented a 29% sequential increase. Further, Harvest is keeping its foot on the pedal as far as its expansion efforts are concerned.

The firm obtained more than $200 million in funding from a private investment firm and has already opened about half a dozen new retail locations in the third quarter. Finally, Harvest recently acquired the right to distribute its CBD products in more than 10,000 retail stores.

The bottom line

While Harvest possesses the assets to rack up high sales and revenues for many years to come, it's doubtful whether the company can earn substantial profits.

In particular, its profit margins have been decreasing, and the addition of all the facilities it acquired in its latest M&A will not make it easy to improve efficiency. In short, while it may be wise to keep an eye on the Vancouver-based company, it might not be the right time to pull the trigger just yet.

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