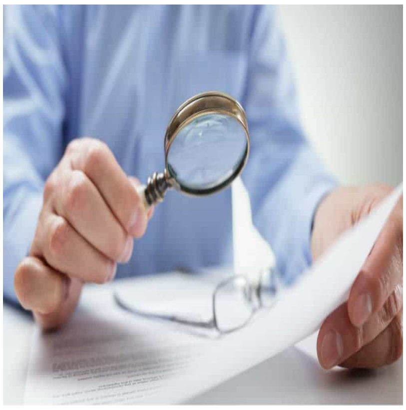

The 1 Cannabis Valuation Metric You Need to Know

Description

Valuing cannabis stocks can be tricky for a number of reasons. First, it's a new industry that continues to go through change and see innovation often, so there isn't a ton of history and metrics to look at.

Another reason it's difficult is because it was just legalized in Canada, and it's still illegal in many parts of the world.

With many companies still working to build their operations, and many companies at different stages of their growth, the best way to value cannabis companies seems to be the enterprise value/fully funded capacity method.

While a lot of cannabis companies boast of their licensed capacity, it's not quite the same as fully funded capacity. Funded capacity includes all of a company's capacity that has either been fully paid to construction or is already up and running.

Investors should note that a lot of the companies are still in the construction phase, even if it has been fully funded.

In the past, licensed capacity was a big factor in the valuations of companies and it's still important, but now that legalization has come and gone and the industry is going through its growing pains, investment funds are harder to come by.

This makes funded capacity a better measure because it shows the potential of the company today.

Taking the enterprise value to funded capacity is a great way to understand how much you have to pay today for the company's potential capacity today.

This way you can see which stocks are cheap and which are trading at a premium to see if the valuations are justified.

Looking at a number of companies, it looks as though the company with the cheapest enterprise value/ fully funded capacity is **WeedMD** (TSX:WMD).

WeedMD

WeedMD is one of the smaller cannabis companies in Canada by market cap, but you wouldn't know that looking at its numbers.

It is the fifth-largest company in regard to funded capacity, currently at 150,000 kg. At the end of 2019, its capacity, once up and running, is expected to be 50,000 kg, and by 2020 construction will be complete, bringing the total capacity to 150,000 kg.

Its in-house cannabis-extraction company CX Industries also has future capacity of 200,000 kg of production.

WeedMD is by far the cheapest company in Canada on an enterprise value (EV)/ fully funded capacity ratio. Its EV is roughly $180 million, giving it an implied EV/ fully funded capacity of just $1.20 per gram.

To give you an idea of how cheap that is, **Canopy Growth's** EV/fully funded capacity is roughly $30.50/gram, significantly higher than WeedMD's.

Going forward, WeedMD has exciting plans and has also partnered with Pita Pit to start Pioneer Cannabis and has collaborated with an Ontario retail store lottery winner to open a Pioneer store in Burlington, Ontario.

What's also promising is that WeedMD is number seven in brand recognition in Canada, which is pretty impressive, considering it's one of the smaller companies in Canada.

It continues to offer a ton of potential and value, and any investor looking to get into the cannabis industry can do so through WeedMD and know your capital is well protected.

Bottom line

Now that the industry has began to mature, it is time to start investing based on valuation rather than potential of companies, which was how many investors had done it until now.

It's becoming clear that investors want to see results sooner, and the way to find this is investing in the most undervalued companies, such as WeedMD.

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