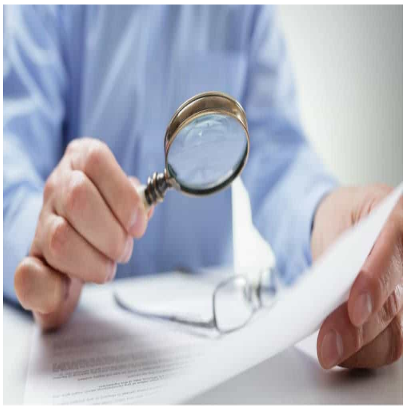

Take a Closer Look at These 2 Cannabis Stocks!

Description

Marijuana investors trying to find the next big cannabis company among the industry latecomers should focus on crucial financials and agricultural yields. Fundamental financials can paint a good picture of how well the corporation's leaders manage money. Similarly, agricultural yields are a great leading indicator of gross margins.

Shareholders can best see how these metrics perform in practice to value a company by comparing stats on **Green Organic Dutchman** (TSX:TGOD) and **Supreme Cannabis** (TSX:FIRE).

Green Organic Dutchman sells for over $2.32 on the Toronto Stock Exchange, while Supreme sells for only $1.25. Many investors might be tempted to place too much weight on market price as an indication of value. Although that would be the easiest way to invest, it is likely not going to boost portfolio returns.

The Dutchman posts $16.1 million less revenue than Supreme

Supreme is unambiguously outpacing the Green Organic Dutchman in net revenue. Supreme posted 90% revenue growth to $19 million over the same quarter last year, while the Green Organic Dutchman only brought in $2.9 million in revenue.

With a difference in quarterly revenue earnings of $16.1 million, Supreme stock should be selling for a higher price than Dutchman. Moreover, Supreme's EBITDA is $4.18 million — indicating a much more solid financial position than the Dutchman's $55 million loss.

EBITDA stands for earnings before interest payments, taxes on income, capital depreciation, and amortized loan interest, and it's a consistent way to compare company performance.

Even with a higher debt load, Supreme's levered free cash flow (FCF) is $133.45 million more than the negative $247.54 million reported by Dutchman. Granted, the number of shares outstanding on Supreme stock is higher at 333 million shares than Dutchman's 275 million. A higher supply of shares on the market typically results in a lower share price, but this still doesn't fully explain the price anomaly.

Supreme reports more concrete agricultural yields

Post-legalization sales growth is another reliable performance measure to grade cannabis stocks. Unfortunately, Dutchman and Supreme have barely started to ship marijuana. Thus, it is difficult to ascertain how competitive these stocks will be until next quarter’s earnings, but we can still examine agricultural yield as a proxy for sales growth.

Agricultural yield is just as important as sales growth in the marijuana industry because production efficiency feeds into costs and costs influence price competitiveness, which in turn affects sales growth.

Green Organic Dutchman estimates mean agricultural return per plant in a broad range from 54 to 78 grams. Meanwhile, Supreme Cannabis reports a specific historical yield of 70.51 grams per plant. The broad range Dutchman announced induces less confidence than Supreme’s historical yield.

Because Dutchman has less historical performance data to support its valuation, the stock price difference between it and Supreme probably represents speculation more than true worth.

Foolish takeaway

Short sellers and day traders gambling on the next big cannabis news story or short squeeze heavily influence prices. It is still too early to call Green Organic Dutchman an industry flop; it is a latecomer with a higher value than the better-positioned Supreme Cannabis.

It will be interesting to see where these stocks go in the next few years. For investors interested in cashing in on a huge growth industry, be sure to research the stocks which you invest in adequately. Supreme Cannabis may be less expensive than Green Organic Dutchman, but it likely poses less risk and promises higher returns.

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