



Will Charlotte's Web Holdings (TSX:CWEB) Stock Create Significant Shareholder Wealth?

Description

We have seen the chaos in the cannabis sector over the last few months. Most cannabis stocks have lost 70% in market value, driven by lower-than-expected demand. The slow rollout of retail stores, competition from illegal sellers, and regulatory concerns have decimated pot stocks.

But what if I told you one marijuana company has the potential to beat market returns? While the odds are still stacked against pot stocks, **Charlotte's Web Holdings** ([TSX:CWEB](#)) might come out as the winner, and here's why.

CWEB is targeting the CBD hemp space

While most marijuana manufacturers are targeting the adult-use recreational segment for growth, CWEB is looking at the cannabidiol (CBD) and hemp space to gain traction. It is a leading brand by market share in the production and distribution of hemp-based CBD products.

CWEB does not produce or sell medicinal/recreational marijuana products. The company is instead a vertically integrated company and is looking to create whole-plant hemp health supplements. CWEB grows its proprietary non-GMO hemp genetics on family farms that are then made into phytocannabinoid health and wellness products.

The slow rollout of retail stores and cannibalization from illegal sales have severely impacted the top line for major pot manufacturers including **Canopy Growth**, **Aurora Cannabis**, **Hexo**, and **Aphria**.

However, as CWEB is targeting the CBD-hemp segment, these factors do not impact the stock as much. Its products are available across 9,000 retail locations. In the third quarter, Kroger expanded distribution of CWEB products to five new states. Kroger has [CWEB products available](#) across 22 states and in 1,350 stores.

Focus on product quality

Charlotte's Web wants to be known for its product quality. It claims that all products are tested up to 20 times through the entire process of cultivation, extraction, manufacturing, and packaging. It also has a 60-panel toxin test, and batch results are available for every item sold.

CWEB facilities are FDA approved and cGMP certified. It has strategic research and development partnerships with top universities, including John Hopkins and Harvard.

It's focus on product development has led to solid revenue growth for the company. CWEB has managed to grow sales from \$14.7 million in 2016 to \$69.5 million in 2018. Analysts expect sales to reach \$99.1 million in 2019, \$148 million in 2020, and \$274 million in 2021.

CWEB managed to increase its gross margin from 65% in 2016 to 75% in 2019. Its EBITDA margin also rose from 14% to 30% in this period.

The huge addressable market for CWEB

According to CWEB, the hemp market in the U.S. is estimated to grow from \$0.6 billion in 2018 to \$21.9 billion in 2022. Though this is an aggressive estimate, the company expects the market to reach \$4.4 billion on a conservative basis.

The retail chains will account for 64% of total hemp sales by 2022. So, in order to be a market leader, CWEB needs to operate similar to a consumer packaged goods company — something it has done successfully over the years.

While most pot manufacturers are struggling with profit margin, CWEB is EBITDA positive. Though analysts expect the company's EBITDA to fall from \$21.1 million in 2018 to \$8.9 million in 2019, it is estimated to reach \$73 million by 2021 and account for 26.7% of sales.

CWEB has over six years of experience in hemp plant cultivation. Company-operated farms are based out of Colorado, while contract partner farms are in Kentucky and Oregon. In 2016, CWEB produced 41,000 lbs of hemp. This figure rose to 675,000 lbs in 2018.

The company's focus on a niche market coupled with operational efficiency and increasing market share make CWEB stock a solid pick in a segment that has been riddled with volatility.

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