



Value Investors: Why This Cannabis Stock Is Set for a Massive Comeback in 2020

Description

Cannabis stocks have had a dismal 2019. Just looking at **Horizons Marijuana Life Sciences Index ETF**, which tracks the industry, the sector is down nearly 40% since the start of the year and down more than 60% off its mid-year highs.

There has been a lot of talk of whether the bubble is over and what's next for cannabis stocks, but I believe this to be a great opportunity to find some high-quality stocks that are trading undervalued.

Canopy Growth, for example, hasn't been this cheap since early 2018, long before recreational cannabis was even legal in Canada.

It's also an opportune time, since we have had legalization for more than a year now, and with extracts and edibles now legal, we can start to get a clearer picture of what's going on in the sector.

One thing that has clearly become important, are companies' abilities to diversify the distribution deals they have with each province, as certain political headwinds have caused headaches for some stocks.

In retrospect, a stock that announced a deal with Ontario, Canada's largest province, would have been seen by the market as one of the best deals to accomplish; however, it's clear now that Ontario has had a much bumpier roll out than some of the other provinces across the country and has actually hurt some stocks' road to profitability.

One stock you know you can count on, because it's extremely cheap and the stock has already reached [profitability](#), is **WeedMD** (TSXV:WMD).

WeedMD is a vertically integrated cannabis company that has both cultivation and extraction operations. It also has an ownership stake in Pioneer Cannabis, a retail store in Burlington, Ontario, to complete its vertical integration.

It currently has roughly 50,000 kg of cultivation capacity. By 2020, it expects to increase that by 200% to 150,000 kg. The facility it uses for its greenhouse growing has some of the best technology possible,

with automated climate control and specific micro climate cultivation rooms.

The greenhouse is built right onsite where its outdoor growth production takes place, making it easier for the company logistically to distribute and manage its products.

Its extraction capacity has also been growing, as the company scales the operations of its facility, on the way to its goal of 200,000 kg of annual capacity.

To date, it has made six different distribution agreements with provinces from B.C. to Ontario and Nova Scotia. It's diversified its distribution though, adding deals with pharmacies as well as its direct-to-consumer distribution.

In addition, WeedMD is the first and only licensed producer (LP) to make multiple supply deals with long-term-care providers.

Like many peers in the industry, it has also diversified with some international exposure, becoming the first LP to sell and export genetics to Australia and Israel.

What makes WeedMD the most compelling, though, is its valuation. The stock may be the cheapest cannabis company in Canada.

For starters, its price to earnings, which many of its peers can't be measured against because they aren't profitable like WeedMD, is only slightly more than 10 times.

The company's enterprise value (a measure of the company's total cost to an investor today) to fully funded annual capacity ratio, one of the top ways to compare cannabis companies, is one of the lowest in the country. Currently, it sits at just one times — extremely low compared to the rest of the industry.

The company's return on equity has been a little more than 15% compared to the average of the rest of the industry which still sits in negative territory.

It has one of the lowest market caps in Canada at just \$125 million, yet it has the fifth-highest funded capacity of all licensed producers.

Clearly, there is a disconnect here, and worst-case scenario, if the entire sector is still overvalued, intuitively, WeedMD will fall the least given its extremely cheap valuation already, which gives investors a large margin of safety.

If you have been considering the cannabis stocks recently, especially after this massive sell-off, I would start with WeedMD, the cheapest stock by far.

It's reporting earnings after the market closes on Thursday, so we can get a better glimpse into how its performance has been going.

CATEGORY

1. Cannabis Stocks
2. Investing

TICKERS GLOBAL

1. TSXV:ENTG (Entourage Health Corp.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Cannabis Stocks
2. Investing

Date

2025/08/16

Date Created

2019/11/27

Author

danieldacosta

default watermark

default watermark