



Cannabis Investors: Will Aleafia Health (TSX:ALEF) Stock Gain Momentum in December?

Description

Shares of Canada-based cannabis company **Aleafia Health** (TSX:ALEF) are trading at \$0.66 at writing. The stock went public back in July 2011 at \$0.30 per share. The legalization of cannabis for recreational use drove the stock to record highs of \$3.11 per share in October 2018.

This means that investors have lost close to 80% in market value in the past year. The overall weakness in the cannabis space coupled with lower than estimates sales figures for marijuana companies has destroyed investor wealth in 2019.

But has Aleafia Health stock bottomed out? And will shares move higher as we inch closer to 2020?

A look at Aleafia's production capacities

Aleafia Health is a vertically integrated marijuana company with medical clinic, cannabis cultivation, and research & development operations. Aleafia has a few indirect wholly-owned subsidiaries through which the former owns three production facilities.

Aleafia's Ontario facilities are located in Blackrock, Niagara, and Paris. The Niagara facility is a 160,000 square feet space with an annual cultivation capacity of 25,000 kilograms. Its Blackrock facility has a cultivation area spanning 3.74 million square feet with an annual cultivation capacity of 103,000 kilograms.

The Paris facility is Aleafia's smallest with a cultivation space of 17,000 square feet and an annual production capacity of 1,500 kilograms. Although Aleafia can cultivate 129,500 kilograms of dried cannabis flowers, only 32,600 kilograms can be produced at licensed and operational facilities, while the rest can be produced once it receives approval from Health Canada.

Aleafia needs to be wary of oversupply

While Aleafia is rapidly scaling production, it needs to be wary of oversupply that's currently impacting the retail marijuana space. Due to the slow roll out of retail stores in major Canadian provinces, many [cannabis companies](#) have been grappling with rising inventory levels.

Aleafia's inventory value has risen from \$4.25 million in the June quarter to \$7.81 million in the September quarter. Inventory value rose by 84% compared to a 29% rise in revenue on a sequential basis. While demand has been constrained due to the aforementioned issues, Aleafia has managed to grow sales at a robust pace.

In the third quarter of 2019, Aleafia sales were up 239% year over year to \$4.95 million. In the first nine months of 2019, sales were up 285% year over year at \$10.32 million. Analysts expect company sales to rise from \$3.33 million in 2018 to \$15.4 million in 2019.

Company sales are expected to rise to \$70.1 million in 2020 and \$163 million in 2020. With the estimated rise in sales, analysts also estimate a robust expansion in Aleafia's profit margins.

Aleafia's EBITDA is slated to decline from -\$7.37 million in 2018 to -\$18.8 million in 2019. However, analysts expect it to be EBITDA positive by 2020 with reported EBITDA of \$2.88 million in next year and \$47.9 million in 2021, suggesting that Aleafia's EBITDA margin will reach a healthy 29.4% by 2021.

Similar to other cannabis companies, we've seen that Aleafia is investing heavily in capital expenditure. The cannabis companies will be impacted by near-term oversupply issues.

However, the growth story for marijuana producers remains intact as the addressable market continues to expand in the recreational and medical marijuana space.

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