Cannabis Investors: 2 Canadian Pot Stocks That Will Be Profitable in 2020

Description

We have seen that most marijuana stocks have decimated investor wealth in 2019. The ongoing slowdown has been exacerbated with less than impressive earnings. The sell-off in the cannabis space started soon after recreational marijuana was legalized in October 2018.

Investors were then concerned over the high valuations of cannabis companies. The cannabis dream for investors soon turned into a nightmare as they failed to account for the slow rollout of retail stores across major Canadian provinces as well as the cannibalization of market share from illegal sellers.

This, coupled with rising losses have sent marijuana companies to multi-year lows. However, it's entirely possible that a few stocks have now bottomed out and might move higher as we inch closer to 2020.

Here we look at two pot stocks that will not only grow sales at a robust pace, but will also inspire investor confidence with rising profit margins.

Aphria estimated to post adjusted earnings of $0.05 in fiscal 2020

Shares of Canada's leading cannabis company **Aphria** (TSX:APHA) are trading at $6.2 at writing. The stock has declined 72% since January 2018. Aphria went public on December 12, 2014, and closed trading at $0.75 that day. This means the stock has gained an impressive 725% in the last five years despite the recent pullback.

Aphria sells cannabis products targeting medical marijuana as well as the recreational marijuana space. It accounts for 8.5% of the **Horizons Marijuana Life Sciences ETF** and is the fourth largest holding in the ETF.

Analysts expect Aphria sales to rise 149% to $591 million in fiscal 2020 (year ending in May), 35% to $800 million in 2021 and 15% to $921 million in 2022. Though revenue growth is decelerating, Aphria is already reporting an adjusted profit.

Analysts expect company earnings to rise from -$0.07 in 2019 to $0.05 in 2020 and $0.25 in 2021, suggesting that the stock's forward price to earnings multiple stands at 26, which is cheap given its robust growth metrics.

Aphria is expected to post EBITDA of $49.9 million in 2020, indicating a margin of 8.4%. EBITDA is then estimated to rise to $197 million in 2022, expanding the margin to a healthy 21.4%.

Charlotte's Web Holdings

Another pot stock that will soon be profitable is **Charlotte's Web Holdings** (TSX:CWEB). CWEB focuses on the production and distribution of hemp-based cannabidiol wellness products. It's one of the few companies to solely focus on the medical wellness space.

However, CWEB investors have also experienced a massive erosion in market value. The stock went public on May 31 this year and closed trading at $17.88 that day. It then rose to a record high of $30.1 in August and has slumped over 60% since then to its current trading price of $11.95.

Analysts expect CWEB sales to rise 41% to $99 million in 2019, 49.5% to $148 million in 2020 and 85% to $274 million in 2021. CWEB's revenue growth is accelerating helping the firm to grow its bottom line.

CWEB is expected to post EBITDA of $8.9million in 2019, indicating a margin of 8.3%. Its EBITDA is then estimated to rise to $72.8 million in 2021 increasing margins to almost 27%.

CWEB's growth will be supported by its expansion of retail partnerships. Company products are already available at 9,000 retail store locations.

CWEB is the eighth largest holding in HMMJ and accounts for 6.2% of the ETF.

The cannabis growth story remains strong

The total addressable market for cannabis continues to expand globally. Aphria estimates the global marijuana market to be valued at $150 billion by 2025.

Most pot stocks will get a significant boost if and when the U.S. Senate legalizes marijuana consumption at the federal level, which will provide pot companies with easier access to capital for growth and expansion.

Aphria and CWEB can be market leaders in the cannabis space given their robust margin growth and increase investor wealth over the next decade.

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