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

Description

After an underwhelming 2019, cannabis investors will be hoping the sun shines bright on pot stocks next year. We have seen the absolute decimation of several cannabis stocks in 2019.

The stocks in the pot industry have been impacted by valuation concerns, lower-than-estimated growth, slow rollout of retail stores, high inventory levels, regulatory concerns, vaping scandals, and competition from the illegal market in 2019.

We can understand why investors turned bearish so quickly after the legalization of recreational cannabis in Canada drove stocks to record highs in October 2018. However, with several pot stocks losing close to 70% in market value, is it safe to assume that the worst is over?

I'll look at two cannabis stocks that will soon be profitable.

Aphria will end fiscal 2020 with an EBITDA of $594 million

Shares of **Aphria** (TSX:APHA)(NYSE:APHA) are trading at $6.94, which is 65% below its record high. Despite its steep fall since January 2018, APHA stock has returned close to 800% since its IPO in December 2014.

While most pot stocks are struggling with expanding losses, Aphria has already been profitable in the last two quarters. Driven by the strong domestic demand, the company has managed to increase sales from $20.4 million in fiscal 2017 (year ended in May) to $36.9 million in 2018 and $237 million in 2019.

Analysts now expect sales to reach $594 million in 2020, $790 million in 2021, and $922 million in 2022. This growth in sales will also boost APHA's bottom line. After posting a negative EBITDA of -$27.7 million, this metric is forecast to rise to $42.5 million in 2020, indicating a margin of 7.2%.

Aphria's EBITDA is estimated to reach $197 million by 2022, indicating a margin of 21.4%. A positive bottom line suggests that Aphria stock is trading at a forward price-to-earnings multiple of 26.

The stock is valued at $1.65 billion in terms of market cap or just 2.8 times forward sales. With a price-to-book value of 0.95, Aphria is one of the cheapest pot stocks to own right now. The company continues to invest in expanding production facilities. It now produces 255,000 kg annually.

OrganiGram has lost 40% in 2019

Shares of **OrganiGram Holdings** (TSXV:OGI)(NASDAQ:OGI) are trading at $3.36, which is 70% below its record high of $11.72. OGI stock was publicly listed in January 2012 and has returned 1,070% since then.

OGI was one of the few companies to beat consensus revenue estimates in the last reported quarter. Despite its encouraging results, OGI is struggling to make a comeback due to the overall weakness in the pot industry.

In fiscal 2020 (ending in August), analysts have forecast sales of $134 million, up 67% year over year. Sales are then estimated to reach $226 million in 2021 and $263 million in 2022. Similar to Aphria, OGI also ended 2019, with a positive EBITDA of $19.9 million, indicating a margin of 25%.

By the end of 2022, the company's EBITDA is forecast reach $78.1 million, which will mean a margin of 29.7%. A positive bottom line suggests that OGI stock is trading at a forward price-to-earnings multiple of 19.9. The stock is valued at $528 million in terms of market cap 6.6 times forward sales.

The growth story for pot stocks remains intact. The slow rollout of retail stores will impact these companies in the short term. However long-term investors can experience stellar returns given the industry's expanding addressable market.

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Date
2025/08/29
Date Created
2019/12/13
Author
araghunath