



Cannabis Investors: Read This to Avoid a Major Industry Risk

Description

Debt is going to be a big issue for the cannabis industry, especially if it takes even longer to mature and evolve than we are expecting now.

The industry will inevitably become naturally integrated into the economy and society and grow to be mature industry, but the longer that takes to happen, the more vulnerable cannabis companies with high debt loads become.

Debt can be a major key to high growth rates and high returns on equity, but it can also be a major issue if sales grow slower than expected.

Companies need a stream of cash flow to service their debt payments, so if sales in the industry are hard to come by, there could be some real trouble that is brewing.

Luckily, a lot of prudent management teams foresaw this a couple years ago and have built up their companies' operations more conservatively and with more discipline.

While this may have held these companies back over the last few years, unable to grow as fast as companies taking on more debt, it will be a major factor for survival going forward, so any cannabis investment you may consider going forward, no matter how promising the opportunities, must have a debt load that is sustainable, even in the worst-case scenario.

Two high-value investments you can make today in the cannabis space with low levels of manageable debt are **WeedMD** (TSXV:WMD) and **Green Organic Dutchman Holdings** (TSX:TGOD).

WeedMD

WeedMD has been one of the quietest cannabis stocks, but one that has always maintained a strong position in the industry. It's a stock that has a tonne of long-term potential and is extremely undervalued. It also has strong financials and net debt of just \$35 million.

That was until its recent acquisition of Starseed Holdings, a private licensed producer catering to a major workers union in Canada.

Management of WeedMD have continued to reward shareholders with high-quality execution, making a highly strategic deal at a time when the market for acquisitions in the industry had pretty much dried up completely.

What's even more impressive is that the deal is a win-win for everyone, and actually strengthened WeedMD's balance sheet, now with more than \$55 million in cash upon the deal closing compared to just \$49 million in total debt outstanding, giving it net cash of more than \$6.5 million.

The deal also adds a number of patients to WeedMD's business, as more union members sign up over the years, as the industry continues to grow.

The opportunity present with WeedMD is absolutely massive, as it's positioned to be one of the best companies in the industry because of its commitment to a strategic and conservative approach and ability to survive whatever the situation.

Green Organic Dutchman

Green Organic Dutchman is another high-value cannabis stock that has seen its share price fall rapidly toward the end of 2019. Now, at a market cap of just roughly \$225 million, the stock is offering investors a major opportunity.

It's a stock that investors can get behind, as it's highly stable from a financial position perspective.

According to the company, its enterprise value — a measure of the company's total cost (market cap plus net debt) to expected revenue is one of the lowest in the industry and well below the industry average looking forward to both 2020 and 2021.

Part of this is due to the amount of revenue it's expecting; however, it's mostly due to the minimal valuation the company is trading for today.

Looking at Green Organic Dutchman's balance sheet, it's clear why it's so stable, as the company barely has any debt at all, with a debt-to-equity ratio of just 19%.

This puts it in a strong position going forward, no matter what happens in the industry and gives it flexibility to make strategic decisions regarding the future of the company going forward.

Bottom line

If you are looking for cannabis stocks, these are two of the best stocks to consider given their extremely low market caps and their manageable levels of debt.

These two main qualities are what make these the best [cannabis companies to invest in during January](#), especially while they still trade at 52-week lows.

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danieldacosta

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