



2 of the Only Pot Stocks Worth Buying Today

Description

Last week, I wrote why I thought **Canopy Growth** was [only worth \\$15](#), because its valuation is so astronomically high, it looks like it could take years for the company to grow to the potential the market thinks the company has.

At a price to sales of more than 30 times, it's clear Canopy will need to grow sales at least 10-fold to get its revenue to even come close to being worth more than \$10 billion dollars.

So, if Canopy isn't worth buying, are any companies actually cheap enough?

The cannabis industry is a peculiar one in particular, because while Canopy, the outright industry leader, is trading at such a massive valuation, there are two great options in **OrganiGram Holdings** ([TSX:OGI](#))([NASDAQ:OGI](#)) and **Aphria** (TSX:APHA)(NYSE:APHA) with much more reasonable valuations.

The thing in the cannabis sector is that it's easy to look at one company's growth numbers and think it's a winner just by the growth percentages.

Instead, look at the actual numbers and the metrics to gain an understanding of what a company's potential might be and where it actually is today.

You should also look at how well the cannabis industry is growing. If a company you are looking at grew sales by 75% in one year, that may seem impressive, but if the whole sector saw growth of 100% in sales, you'll see the company actually underperformed.

So, how do Aphria and OrganiGram look?

Aphria

Aphria is one of the largest cannabis companies on the TSX, and since day one it has taken a disciplined and cautious approach to the industry.

Similar to the rest of its peers, it has been creating and refining strong brands, which it has segmented to the different markets from adult recreation to medical. It's also been working on creating partnerships around the globe to give it plenty of long-term opportunity in markets outside Canada.

Because it's taken a conservative approach since day one, Aphria has a super-low-cost growing structure that has allowed it to report positive earnings before interest, taxes, depreciation, and amortization (EBITDA) over the last three quarters. This has set it apart from numerous competitors and highlights the strength of Aphria's growing operations.

On a price-to-sales basis — probably the best metric for gauging valuation while the industry is still evolving — Aphria is the second-cheapest cannabis stock, second only to the embattled **CannTrust**, which, given its major problems, makes the company uninvestable.

The company has a market cap of just \$1.6 billion, giving it plenty of room to continue to grow, especially since it's one of the most well-run cannabis companies in Canada.

OrganiGram

OrganiGram is another high-quality cannabis company that also took a disciplined approach to the sector early on.

Despite only being a \$500 million stock, the company has sales in all 10 Canadian provinces as well as a strong position for the edibles and extracts market.

Similar to Aphria, OrganiGram has also reported positive adjusted EBITDA, with an EBITDA margin of 25% of its net revenue in fiscal 2019. The positive EBITDA is a direct result of its low-cost growing methods as well as its state-of-the-art facility in New Brunswick, helping it to cultivate superior cannabis.

Looking at the price-to-sales ratio of roughly 5.6 times, OrganiGram is the fourth-cheapest cannabis stock on the TSX.

With a number of new products coming to market over the next few years, Organigram is not only positioned well for the future, but it's valued well for investors, making it one of the top cannabis stocks to add to your portfolio today.

Bottom line

In an industry that has largely been bid up and had a lot of disappointment for investors expecting more, the best bet for investors is to buy the most undervalued companies.

In general, price-to-sales ratios as high as six times are usually pretty large valuations, so these companies and any other with a reasonable valuation are the only investable cannabis stocks.

Of course, none of this matters unless you are picking the best companies to buy too, which is why Aphria and Organigram are the top cannabis stocks to buy today.

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2. Investing

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