Forget Canopy Growth: This Pot Stock Is Cheaper and Profitable!

Description

Canopy Growth Corp (TSX:WEED)(NYSE:CGC) and other pot stocks have been struggling on the markets over the past year. While some stocks are still overpriced, there are other, lesser-known cannabis companies that may be better investments to make today.

There's no doubt that Canopy Growth as the industry leader still has terrific growth potential. And with a partner like **Constellation Brands** helping the marijuana company navigate through a very tumultuous and challenging time since legalization, it could be a good long-term buy.

However, there's still a lot of work to do, as the stock has recorded some significant losses in recent periods. For three straight quarters, the company has recorded a net loss of more than $300 million, while its top line hasn't yet been able to break through the $100 million mark. With Canopy Growth trading at 30 times sales, the stock is still expensive given its performance thus far.

Investors should look south to consider better valuations

One place where investors can find less expensive pot stocks is on the **Canadian Securities Exchange** (CSE). The unofficial home for U.S. pot stocks, the CSE is not as popular or active as the **TSX,** which can help make valuations less extreme. **Liberty Health Sciences** (CNSX:LHS), for instance, trades at around seven times its sales.

The company recently reported its third-quarter results that saw sales of $16.1 million — more than five times the $3.2 million that Liberty Health reported in the prior-year period.

What's even more encouraging is that the company also recorded a profit of $$6.9 million compared to a loss of $9.7 million a year ago. Through the first three quarters of the fiscal year, its net income is an impressive $26.6 million.

That does come with a big caveat, however, as the company has benefited from unrealized fair value gains of $34.5 million. But benefiting from gains is not unusual for pot stocks.

What's perhaps more important is that over the past nine months, Liberty Health has been cash-flow positive, generating $4.5 million from its operating activities.

Cash flow is an area in which many cannabis stocks are lacking, which that hasn't been the case for Liberty Health. Generating cash flow is crucial for a cannabis operator to continue growing without always worrying about obtaining funding.

The company recently announced the opening of its 23rd dispensary in Florida as it continues to go after one of the more lucrative marijuana markets in the U.S.

Although it may not be a large multi-state operator, that could work to Liberty Health's advantage by not spreading itself too thin and incurring too many costs along the way.

With a strong footprint in Florida, there's the potential that the company could be an attractive acquisition target of a larger cannabis company that wants to accelerate its expansion.

However, given the instability in the industry today, we may not see many mergers and acquisitions for a while.

But whether it's the result of a potential takeover or the company's own continuing growth, there definitely looks to be more upside in buying shares of Liberty Health than there is in Canopy Growth, especially given their valuations and financial performance.

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