



Why This Is the Best Cannabis Stock in Canada

Description

The cannabis industry hasn't been able to catch a break. After touching record highs just over a year ago, the industry has been in a prolonged bear market.

Since peaking in March of 2019, the Canadian Marijuana Index has lost 74% of its value. The recent downturn has wiped out most of the industry's goodwill and the Index is now trading at the cheapest valuation in three years.

The swift crash caught many investors off guard. Unfortunately, there were plenty of signs, one of which was sky-high valuations. Now that these valuations have come down significantly, it might be time to revisit the sector.

The question now becomes, which cannabis company to invest in? My answer might surprise you. Under-followed **MediPharm Labs** ([TSX:LABS](#)) is my current top pick in the sector.

Not a traditional pot stock

Unlike those that dominate the headlines, MediPharm is not your typical cannabis company. For starters, it isn't interested in dried recreational or medical cannabis.

Rather, this is a company that specializes in research-driven [cannabis extraction](#). In broad terms, the firm processes, packages and distributes cannabis extracts and advanced cannabinoid-based products.

MediPharm is the first company to be a licensed producer of cannabis oil without first receiving a cannabis cultivation licence. The company has a 70,000-thousand square foot facility with 300,000 kilograms of capacity built to exceed GMP standards.

It received TGA Good Manufacturing Practices (GMP) certification, and expects to receive EU GMP certification in the near future.

The company has also expanded in Australia where it is close to completing its 10,000-square-foot facility. MediPharm is bullish on Australia and intends to position local operations as an import-export hub to service Australia and the entire Asia-Pacific region.

At the end of January, the Australian Department of Healthy, Drug Control Section issued an import licence to MediPharm Labs. This is the first step in achieving the company's vision.

A profitable cannabis stock?

MediPharm's specialized focus is enabling it to emerge as one of the market leaders. Led by two pharmacy industry veterans, the company is quickly establishing itself as the industry's preferred White Label company.

Over the past six months, it has signed six new strategic partnerships with varying levels of minimum commitments and the potential for significant upsizing.

One of the biggest partnerships is the agreement to supply TerrAscend with cannabis distillate. The agreement calls for an initial commitment of \$27 million over 24 months with two additional options, bringing the total contract value to \$192 million. The deal is a transformational one and the largest to date.

MediPharm has about a dozen strategic agreements with LPs to supply them with varying cannabis products. Thanks to its success, it has quietly emerged as one of the most financially successful companies in the industry.

Over the last 12 months, the company has generated \$106 million in revenue. This is third only to **Canopy Growth Corp** and **Aurora Cannabis**.

Yes, MediPharm generated more revenue than **Tilray**, **Aphria**, and **Cronos Group**.

Further, MediPharm is one of the few that have become profitable. It has generated positive net income over the past couple of quarters and the only one in the industry that has recorded four-consecutive quarters of positive EBITDA.

At only 3.28 times sales and 22.33 times forward earnings, MediPharm Labs is one of the cheapest stocks in the industry. To put its valuation into perspective, it's generated four times more revenue than Cronos Group, yet trades at a fraction of its market cap (\$3.14 billion vs \$350 million).

Amid an industry in which most companies are trying to become the biggest and "baddest" of the bunch, little-known MediPharm has quietly established a financially viable business model.

As a leading White Label company specializing in extraction, it may also be one of the largest benefactors of "Cannabis 2.0" — the [recent legalization](#) of edibles, beverage-infused drinks and topicals.

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