



Forget Canopy Growth (TSX:WEED): Buy This Cannabis Stock Instead!

Description

Marijuana investors have lost massive wealth in the last 15 months. Several pot companies, including **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) are trading way below their record highs. Since April 2019, Canopy Growth investors have lost 66% in market value.

Cannabis companies have been grappling with various regulatory and structural issues. The slow rollout of retail stores in major Canadian provinces and competition from illegal sales resulted in lower than expected demand for most licensed producers, which meant cannabis companies had massive inventory — and million-dollar write-offs put a strain on the bottom line.

Stocks were decimated over the course of 2019 as cannabis giants such as Canopy Growth reported quarterly results far below analyst estimates. The vaping scandal and mounting losses dragged shares of Canopy and peers lower.

Canopy Growth is a market leader in the cannabis space. It also has the backing of **Constellation Brands**, which will help the former navigate these tumultuous and challenging times. But the cannabis market in North America continues to expand at a robust rate.

So how do you take advantage of this growth?

Investors can look to invest in **Innovative Industrial Properties Inc.** ([NYSE:IIPR](#)) for long-term gains.

Innovative Industrial is a real estate play

IIPR owns, manages and acquires specialized industrial properties that are leased to licensed operators in the medical cannabis space. It acquires properties through sales lease-back transactions and third-party purchases and [focuses on leasing properties](#) on a triple-net lease basis.

Here, the tenant is responsible for all property-related costs, including maintenance, insurance, and taxes during the lease term. Its client base includes large companies such as **Trulieve Cannabis** and **Cresco Labs**.

This business model has helped the company grow sales at an exponential rate. Its sales have risen from US\$6.42 million in 2017 to US\$44.7 million in 2019. Analysts tracking IIPR expect the company to post sales of US\$132 million in 2020 and US\$181 million in 2021.

Unlike most cannabis players, however, IIPR is already posting a net profit. In 2020, analysts expect the company to increase earnings per share to US\$4.66, up from US\$2.03 in 2019.

This suggests that the stock is trading at a forward price-to-earnings multiple of 21, an absolute bargain given its robust growth rates.

IIPR is also generating substantial cash flows to pay dividends to shareholders. It has a forward dividend yield of a tasty 4.4%, making it a mouth-watering bet among stocks in the cannabis space.

Focus on property acquisition

A key driver of IIPR's revenue growth is the company's focus on expanding its property portfolio. It had 11 properties at the end of 2018 and acquired 35 new properties last year.

In the first two months of 2020, IIPR acquired another five properties. It now owns 51 properties in 15 states in the U.S. totaling 3.2 million square feet.

The upcoming presidential elections will also impact the share prices of IIPR and peers. Currently, medical cannabis is legalized in 33 states south of the border, while adult use is legal in 11 states.

During the earnings call, company CEO Paul Smithers stated, "As 2020 began, 19 states were actively debating reform policies; 11 states with active medical cannabis programs were considering introducing regulated adult use programs; and another eight states were considering adoption of medical use cannabis programs."

The verdict

The growth story for most cannabis players remains intact. Investors have a chance to consider investing in a pot company that's growing sales rapidly, has attractive profit margins, and enough cash flow to pay a solid dividend.

CATEGORY

1. Cannabis Stocks
2. Investing

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2. NYSE:IIPR (Innovative Industrial Properties)
3. TSX:WEED (Canopy Growth)

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