Market Recovery 2020: 2 Pot Stocks to Buy on the Rebound

Description

In the last three months, stocks across all industries have remained volatile due to the impact of the dreaded coronavirus. Cannabis stocks have continued their poor run in 2020 making investors sweat. However, as the equity market recovers, there is a chance for pot stocks to make a strong comeback in the second half of 2020.

Aurora Cannabis reported strong quarterly results recently and the stock is up a staggering 177% in the last two weeks. Here we take a look at three marijuana-based stocks that could rebound if the broader market recovers in 2020.

A profitable pot stock

Shares of **Aphria** (TSX:APHA)(NYSE:APHA) are trading at $5.81, which is 45% below its 52-week high. However, the stock has gained 119% since bottoming out in March 2020. Aphria has managed to record a profit in three of the last four quarters, when most cannabis companies are grappling with mounting losses.

Aphria announced its fiscal third-quarter results last month and reported a 65% sequential increase in sales. It was also the fourth consecutive quarter where Aphria reported a positive adjusted EBITDA.

Aphria financials seem strong due to fair value adjustments. However, the cannabis giant continues to focus on reducing costs while maintaining robust top-line growth. Aphria's sales in Q3 doubled year over year. Comparatively, its general and administrative costs were up 24%.

The low cash balances of Canadian marijuana companies are a concern for investors. Due to expanding losses, several firms including Aurora Cannabis have to raise equity capital, which dilutes shareholder wealth. Aphria ended Q3 with $515 million in cash. Given it burnt approximately $125 million this fiscal year, Aphria is well poised to ride out the current uncertain macro environment.

Aphria's acquisition of CC Pharma last year helped it gain traction in Europe's high-growth medical marijuana space. It is now a leading distributor and importer of EU-pharmaceuticals for the German market.

In May 2020, Aphria's subsidiary in Malta, ASG Pharma, received a European Union's GMP (good manufacturing practices) certification. This will allow the company to produce and research medical cannabis products at its facilities.

Aphria is part of a rapidly expanding global market and is one of the top pot players. Its profitability and leadership position makes Aphria an attractive bet for long-term investors.

A cannabis-based REIT play

If you are bullish on the cannabis space, investing in **Innovative Industrial Properties** is a no-brainer. This is an ancillary pot company. IIPR is a cannabis-focused real estate investment trust (REIT).

The stock is trading at US$82.88 which indicates a return of 13% year-to-date. Shares are still trading 40% below its 52-week high and have returned close to 350% since they went public back in December 2016.

IIPR acquires medical-use cannabis facilities and leases them to licensed marijuana producers. This is done under a long-term triple net-lease agreement. While several states in the US have legalized marijuana, the product remains illegal at the federal level. This makes it difficult for pot companies to raise capital via traditional debt financing.

IIPR's business model helps marijuana producers reduce capital burden as production facilities are capital intensive. As of April 2020, IIPR owned 55 properties in the U.S. totaling 4.1 million rentable square feet. The average term lease is for 16 years, allowing it to pay dividends to shareholders. IIPR's forward yield stands at 4.8%.

Similar to Aphria, IIPR will also benefit from the expanding medical cannabis market.

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