CWEB Stock: Should You Buy Charlotte's Web Holdings Right Now?

Description

In the past year, **Charlotte's Web Holdings** (TSX:CWEB) stock has been extremely volatile. The stock has lost 41% in market value and is still down 83% from its record high. Similar to most other Canadian pot stocks, Charlotte's Web has grossly underperformed the markets ever since recreational marijuana was legalized in the country back in October 2018.

Now should you keep an eye on CWEB and other hemp stocks given that legalization is gaining pace south of the border? Is Charlotte's Web stock undervalued, making it attractive to value and contrarian investors?

CWEB's recent Q4 results

Last week, Charlotte's Web, one of the largest hemp producers in the world, released its fourth-quarter and full-year results. Sales in Q4 were up 18% year over year at US$26.9 million, its highest total ever.

The company attributed this growth to a competitive pricing realignment strategy, which also helped it to increase its market share. Charlotte's Web reported an EBITDA loss of US$2.1 million, an improvement compared to a loss of US$6.7 million in Q3.

Another reason for the company's solid performance in Q4 is its acquisition of Abacus Health in June. Charlotte's products are now sold in 22,000 retail outlets in Canada, up from just 10,000 in 2019.

Charlotte's Web was severely impacted during COVID-19 as its B2B (business-to-business) sales were down 30% amid the pandemic. While customers can buy the company's products directly from its online store, B2B sales accounted for 47% of total revenue in 2019. However, in 2020 this figure dropped to 33% and a part of the decline was offset by its direct-to-consumer business which grew 28%.

As normalcy returns and in case the pandemic is brought under control in the second half of 2021, CWEB should see a solid recovery in B2B sales. In 2020, total revenue stood at US$95.2 million, indicating a marginal decline of 1% year over year.

What next for investors?

At the end of 2020, CWEB announced a strategic partnership with InterCure, an Israel-based company. Israel is looking to legalize marijuana in 2021 and the deal could also open up markets for Charlotte's Web in the European Union.

CWEB is also positioning itself to expand in the U.S. markets. It has a presence in three states and might gain traction in several other regions when cannabis is legalized at the federal level.

Charlotte's Web stock has a market cap of US$612 million, indicating its trading at a forward price to sales multiple of 4.6 which is very reasonable given its estimated growth rates. Analysts tracking the stock expect sales to increase by 39.6% to US$133 million in 2021 and by 34.2% to US$179 million in 2022.

Wall Street also forecasts loss per share to narrow from US$0.38 in 2020 to US$0.07 in 2022. The average 12-month target price for CWEB stock is US$6.13 which is 39% above its current trading price.

The Foolish takeaway

We can see there are several attractive opportunities for CWEB stock over the long term. Given its valuation and improving bottom-line this stock should gain pace in 2021 and beyond.

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Date
2025/09/20
Date Created
2021/03/31
Author
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