2 Stocks to Buy Before the Economy Reopens

Description

It is May, and provinces are laying out their plans on how they will re-open businesses. This bodes well for cannabis companies that have survived the current economic climate. Since COVID-19, operations have been reduced or halted altogether, while sales of cannabis have steadily gone up. Companies that have ample supply and liquidity will benefit from this situation.

Small-cap cannabis companies are going bankrupt, and others are completing financings that are detrimental to current shareholders in order to survive. Therefore, it is cannabis companies with strong balance sheets that will come out of the crisis on top. Cash is king right now, and these two cannabis companies are financially positioned to come out on top and grow when the economy ramps back up!

Good things are growing

My first pick is **Aphria** (TSX:APHA)(NYSE:APHA), a global consumer packaged goods and wellness company focused on cannabis. Aphria tailors towards three consumer groups: adult use, medical, and wellness. Within each segment, they have different products to reach each consumer's needs. I won't list them all, but anyway you can think of consuming cannabis, Aphria offers it or will offer it soon.

Aphria has taken a segmented approach to consumer brands by splitting its marketing up into four different avenues: the relaxers, the urban culture, the enthusiasts, and the premium connoisseur. I believe the marketing team at Aphria has been successful in targeting exactly which consumers are going to be within the cannabis market, and it is evident by analyzing financial statements that it is working.

Aphria has the strongest financials in the Canadian cannabis industry. I don't think there are any other cannabis companies performing as well, and it doesn't make sense why the share price hasn't reacted more positively.

In the fourth quarter, Aphria sold $44.7 million worth of cannabis compared to $29 million in the third quarter, representing an increase of 54%. This growth is considered rare; other cannabis companies are posting flat or negative revenue growth in cannabis sales.

Extracting profits

Valens Groworks (TSX:VLNS) is a cannabis company focused on extraction, formulation, product development, and testing. Valens has the capacity to process 425,000 kg of cannabis to fulfill Canadian demand and global demand. The company generates revenue from selling products created from oils such as capsules, sprays, edibles beverages, and more.

Valens's share price has not struggled nearly as much compared to other cannabis companies. I believe this is due to the strong financial strength Valens boasts.

Looking at historicals, Valens has increased revenue from $2.2 million in the first quarter to $30.6 million in the fourth quarter, representing approximately 1,400% growth. EBITDA has also grown from -$2 million in the first quarter to $17.7 million in the fourth quarter.

Based on these results, analysts have high hopes for the company. The company is projected to generate $168.7 million in 2020, increasing to $225.5 million in 2021. It is extremely rare to find this level of revenue growth within the Canadian cannabis market, which I believe shows the company has a strong management team able to steer the boat towards a bright future.

Foolish takeaway

The one positive aspect of COVID-19 on the cannabis market is that smaller and worse-run cannabis companies will go bankrupt, leading to less supply in the markets. This could also lead to purchasing cheap assets that can be utilized to synergize current operations. That being said, the markets will recover, and these two cannabis companies will continue to dominate through strong financials. Buy before the markets recover to maximize your profits.

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1. TSX:VLNS (Valens)

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