

The Valens Company

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The Valens Company called the best pure-play Cannabis 2.0 firm by Stifel GMP as it initiates coverage with a Buy rating

Stifel GMP has initiated coverage on cannabis firm The Valens Company (CVE:VLNS) (OTCQX:VLNCF) with a Buy rating and a C\$3.75 price target.

Calling the extraction company "the best pure play" in the Cannabis 2.0 era of high-margin edibles, vapes, and infused beverages, Stifel analyst Andrew Partheniou noted that BC-based Valens has every method available to provide licenced producers and brand partners a full portfolio of products.

Valens is one of a handful of cannabis companies that are turning a profit, posting income of C\$6.3 million in its fiscal second quarter of 2020 on revenue of \$17.6 million.

READ: The Valens Company manufactures a record number of product SKUs in 3Q of fiscal 2020

"With Valens currently having products in the (recreational) market spanning nearly every 2.0 product category, Valens has established a strong start to its (recreational) presence," Partheniou wrote in a note to investors last week.

"In addition, we believe that as its edible manufacturing facility comes online, Valens could further expand upon its already fulsome product portfolio."

The analyst said it believes the manufacturing facility will be a key driver of shareholder value once it comes online, given the greater profit opportunity of white label and custom manufacturing services that Valens will offer. The company recently launched a line of cannabis-infused beverages, produced under a white label agreement with A1 Cannabis Company (a subsidiary of Iconic Brewing) in Canada, and struck a partnership with TREC Brands Inc to manufacture vape pens across three existing TREC with the potential to later produce other innovative products.

Multimillion-dollar opportunities

Partheniou noted a \$275-300 million tolling opportunity due to flower oversupply.

"With many LPs having overbuilt production facilities, there could be as much as 325+ tonnes of dried flower oversupply currently sitting in LP inventories, which could be amplified by this years' outdoor harvest season beginning in the fall," the analyst wrote. "Faced with limits on storage capacity, we believe LPs could direct a portion of inventories to create a new approximately \$275-300 million tolling revenue opportunity for extractors."

And as Valens sees its sales sourcing transition from a majority B2B to the provincial recreational channel through the rest of the year, Partheniou said the company will be better positioned to drive sustainable profitability going forward and is poised to outperform.

Price: 1.91

Market Cap: \$245.14 m

1 Year Share Price Graph



Share Information

Code: VLNS

Listing: TSX

52 week	High	Low
	3.13	1.44

Sector: Cannabis

Website: thevalenscompany.com

Company Synopsis:

The Valens Company is a multi-licensed, vertically-integrated cannabis company focused on being the partner of choice for leading Canadian and international cannabis brands by providing best-in-class, proprietary services including CO2, ethanol, hydrocarbon, solvent-less and terpene extraction, analytical testing, formulation and white-label product development.

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"Valens stands out among its peers with its flexibility to produce every 2.0 product format available, thereby maximizing its utility to brand partners/LPs," Partheniou wrote. "In addition, the company has a proven track-record of execution through launching the first cannabis beverage into the (recreational) channel and a history of robust profitability."

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