

Why Dollarama Inc. Is a Better Buy Than Canopy Growth Corp.

Description

Canopy Growth Corp. ([TSX:WEED](#)) has certainly been all the hype the past few months, but from an investment point of view, there are some red flags that should give investors pause. The rate at which the stock has grown in the past few months is simply unsustainable, and [it's even gotten worse](#) than it was just a month ago.

In three months the stock has doubled, and just in the last month the share price has increased 55%. It's understandable that investors are excited about the new industry and the growth prospects that are could be realized by the company, but the stock is valued dangerously high and may not leave much upside for investors today to make a profit.

Dollarama Inc. ([TSX:DOL](#)) is another high-growth stock that I think could be a better investment today.

Investors are paying more than \$70 for every dollar of revenue Canopy has brought in

The price-to-sales ratio is a good way to measure how highly valued a stock is, particularly for one that is not turning profits. In the trailing 12 months, Canopy's sales have totaled just \$49 million, and with a market capitalization of over \$3.6 billion, that means the company's stock is trading more than 73 times its revenue.

To put this into perspective, **Amazon.com, Inc.**, a very hyped up stock which trades at almost 300 times its earnings, trades at just three times its sales.

By comparison, Dollarama trades at more than five times its sales. Although that is still higher than Amazon, it is a far cry from the multiple that Canopy is at.

Dollarama has been able to consistently post profits

Canopy has been in the red for three of the past five quarters, and over that time its bottom line has accumulated a net loss of \$21 million. Dollarama has been in the black in each of the past five quarters and has averaged a stellar profit margin of over 15%.

Investors that scoff at this, saying that Canopy is still growing and the industry is in the early stages, should look no further than **Aphria Inc.** as proof that it isn't impossible to turn out profits with some regularity in the cannabis industry.

The cannabis industry still poses lots of uncertainty and risk

There is a lot of excitement around the legalization of recreational marijuana and the growth opportunities that will happen for companies like Canopy and Aphria. However, it's not all roses, as there are some risks to consider. There are legal issues that are going to cause some issues.

For instance, [Ontario's proposed framework for pot](#) isn't going to help foster any growth in that

province, and there's a real danger that a significant part of demand might not be met by regulated pot sales and users may still resort to the black market.

The industry is in the honeymoon stage right now, and investors need to be careful not to get caught up in the hype. Dollarama has a much more stable business model and is in an industry that has a lot more predictability to it. It may lack the hype, but it will provide investors with more realistic expectations.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)
2. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date

2025/08/21

Date Created

2017/11/15

Author

djagielski

default watermark

default watermark