Despite Heightened Valuations, This Cannabis Company May Have More Room to Run

Description

Despite many analysts echoing warnings of a potential bubble on the horizon for Canadian cannabis stocks, investors have continued to flock to Canadian cannabis companies in a search for short-term growth amid a sea of pricey options in what can only be described as a very frothy market. When considering an investment in one of Canada's largest cannabis companies, choosing the right horse to bet on represents its challenges, given the quickly changing landscape of the marijuana industry and uncertainties related to legalization, U.S. asset exposure, and the uncertain size of the total available recreational marijuana market in 2018.

With a market capitalization of more than $1.7 billion, cannabis producer **Aphria Inc.** (TSX:APH) has seen incredible share price appreciation of late. Increasing more than 50% over the past month alone and more than 80% since the beginning of the year, Aphria's valuation has begun to reflect the valuation growth its peers **Canopy Growth Corp.** (TSX:WEED), **Aurora Cannabis Inc.** (TSX:ACB), and **MedReleaf Corp.**(TSX:LEAF) have seen in recent months.

Following a nearly $250 million high-profile investment by **Constellation Brands Inc.** (TSX:STZ) in late October, the Canadian cannabis industry has bloated once again, this time fueled by strong validation of the Canadian cannabis business model by an American company operating within the "sin" industry, covered well by fellow Fool analyst Joe Frenette in early November.

The validation of the heightened valuation multiples ascribed to Canada's oligarchy of cannabis producers in many ways has driven the focus away from the prudent and conservative investing standards exhibited by most Canadian investors towards a belief that valuation multiples will continue to rise at breakneck speed, as investors on both sides of the border continue to pile in to the largest Canadian cannabis producers.

With Aphria currently one of only a few cannabis producers actually turning a profit, the cannabis producer offers slight peace of mind for more conservative investors forecasting cash flow growth; at a TTM P/E ratio of 84, Aphria remains very expensive when compared to the broader S&P/TSX Composite Index or Dow Jones Industrial Index, but it's much cheaper than the majority of its peers at current levels.

Aphria's current battle with the **TMX Group Limited** (TSX:X) over its U.S. assets poses both a problem as well as an opportunity for enterprising investors. With CEO Vic Neufield sticking to his guns in suggesting the company will not in any way divest of its U.S. assets and "find a way" to retain its minority interests in operations in Florida and Arizona, having exposure to a broader and more diversified base of operations is unique to Aphria and likely to be very attractive for investors looking for a place to speculate.

Bottom line

Throwing fundamental investing principles out the window, the hysteria of the Canadian cannabis industry represents an amazing sandbox for speculators to play in. For those willing to put a small amount of capital at risk and spin the roulette wheel, Aphria may represent the best bet today.

Stay Foolish, my friends.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ACB (Aurora Cannabis)
2. TSX:WEED (Canopy Growth)
3. TSX:X (TMX Group)

PARTNER-FEEDS

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

Category

1. Investing

Date
2025/07/03
Date Created
2017/12/04
Author
chrismacdonald