



Which Marijuana Stock Is a Top Buy This Summer?

Description

As the legalization deadline for marijuana recreational use nears, some investors are again looking toward Canada's pot stocks, hoping to make a quick buck. But does [investing in marijuana stocks](#) make sense just before this major event?

By looking at the share prices of Canada's top marijuana producers, it seems the majority of investors have adopted a wait-and-see approach. After delivering triple-digit gains in 2017, the top marijuana stocks are having a roller-coaster ride so far this year.

This price action partly reflects the impact of the ongoing consolidation in the sector, and it's partly due to the nervousness of investors about the supply/demand scenario once recreational use is legalized in Canada this summer. Let's have a look at the big pot stocks and their performance to better understand the risk/reward equation.

Canopy Growth Corp. ([TSX:WEED](#)) is ideally positioned to take advantage of the enormous potential of this market. Alcoholic beverage giant **Constellation Brands** is one of the investors in this company with a 9.9% stake.

What makes Canopy different from other producers is its market size, capacity to ramp up production, the diversification of its product offerings, and international reach. In the most recent quarterly earnings report, Canopy's sales more than doubled in the third quarter compared with a year ago, fueled by a significant jump in domestic sales as well as sales in the German medical market.

This spring, Canopy won a cultivation licence in British Columbia — the first of its two sites operating under the BC Tweed Joint Venture Inc. The licensing approval of the Aldergrove site, the largest federally licensed cannabis site in the world, covers over 400,000 sq. ft. of space.

Trading at \$36.90 at the time of writing, Canopy stock is up 14% this year after a tumultuous start to the year. At this price, the majority of analysts see Canopy trading close to its fair value.

Aurora Cannabis Inc. ([TSX:ACB](#)) stock has failed to create excitement for investors in 2018, despite its two mega deals in its bid to becoming the largest marijuana producer.

After surging more than 300% in 2017, its stock is down 37% this year, following its acquisitions of CanniMed Therapeutics Inc. and then **MedReleaf Corp.** for \$3.2 billion — the biggest deal in the fast-consolidating marijuana sector ahead of the legalization.

Aurora and MedReleaf together expect to produce over 570,000 kilograms of cannabis per year through nine facilities in Canada and two in Denmark.

These transactions, however, didn't get a [favourable reception](#) from the market, as many analysts viewed them as dilutive for existing shareholders. Paying such a high valuation also didn't make sense when marijuana companies' share prices started to deflate this year. That said, Aurora remains the fastest-growing cannabis producer and is well positioned to take advantage of the recreational opportunity.

Aphria Inc.'s (TSX:APH) stock performance has also been disappointing this year. Its shares have been under pressure since the company announced the Nuuvera acquisition this January in exchange for a combination of cash and Aphria stock. Investors didn't like the deal, in which Aphria issued new shares, diluting existing shareholders.

On the fundamental side, however, Aphria is doing just fine. The company made record sales in the third, as its sales volumes more than doubled.

The company's acquisitions of Nuuvera and Broken Coast Cannabis earlier this year have positioned Aphria as a major player in both Canada and abroad. Aphria's Nuuvera acquisition gives the company exposure to many global markets, including Germany.

The bottom line

Investing in marijuana stocks in 2018 has become a risky bet after such a massive rally last year in a build-up to the legalization stage. From here, investors' focus has shifted to the actual performance of these companies once the recreational market opens for business. If you're a risk taker and you want to have some exposure to this volatile segment of the market, then I would advise you stick with these big names. I like both Canopy and Aurora.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:STZ (Constellation Brands Inc.)
2. TSX:ACB (Aurora Cannabis)
3. TSX:WEED (Canopy Growth)

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