

This Top Weed Stock Just Failed a Value, Quality, and Momentum Test

Description

Weed stocks are among the most-traded growth stocks on the TSX at the moment. But while growth investing is a tried and tested strategy to put money in the bank, other factors like value and quality need to be factored in if you're planning to hold a stock for any appreciable amount of time.

One of the best ways to analyze a stock to see if you need to get deeper into it or move away is to put it through a stock screening tool. There are apps and websites that can do this for you, or you can of course pay a portfolio manager to handle your investment choices. Then again, if you're a geek you can get out the old solar-powered calculator and a notepad and [screen stocks the old-fashioned way](#).

Let's pick a weed stock more or less at random and see how it holds up in terms of value, quality, and momentum. Let's go with **Aphria Inc.** (TSX:APH)(NASDAQ:APHQF), as it just gave some rather mixed results in its last earnings report and is no doubt on people's lips.

Value

A high P/E of 52.2 times earnings gets Aphria off to a bad start on value, though its P/B of 2.8 times book could be worse. However, for the purposes of long-term investing, a dividend yield of 0% will also be factored in, giving this stock a rather generous 9/33. Using dividend yield as a variable places more emphasis on the P/E ratio for pure growth stocks such as this, making for a fairer reading of value; unfortunately for Aphria it doesn't win on either front.

Quality

Last year's ROE of 4% signifies a pretty low-quality stocks straight off the bat, though an EPS of \$0.22 is at least positive. Even by adding in a very large 69.6% expected annual growth in earnings, Aphria still gets a so-so score of 17/33 on quality. While there are more variables for quality that could be used, these three are the most basic make for a quick and fairly accurate guesstimate.

Momentum

Aphria shed 8.17% in the last five days at the time of writing, (or, for a broader sense of momentum, over 50% since the start of the year). Overall, it's hard to see what the trend is, and there's no clear indicator that Aphria stock will climb. Guessing or hoping that it will climb "at some point in the fall," does not reduce the risk sufficiently to be able to state why you invested. There are certainly safer [growth investment strategies](#).

Moving on, Aphria's beta of 3.16 shows high volatility, while its share price is overvalued by almost four times its future cash flow value. This contributes to give a momentum score of 26/33. While this is positive in itself, it may not be enough to tip the balance in Aphria's favour.

So what's the verdict?

When all the scores are totaled, Aphria gets a low 52%. Poor value and middling quality contribute to

what is clearly a hold signal. While some analysts are still giving a moderate buy signal, the fact is that this stock's main strength is momentum, and that's not a good long-term investment strategy on its own.

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