Cannabis or Cancer Treatment: 2 High-Growth Healthcare Stocks Compared

Description

Any search for medical or healthcare stocks will bring up a familiar range of pharma and equipment producers, but you'll also find medical grade cannabis stocks, making an interesting crossover between healthcare and the food and beverage industries.

Let's take a look at two high growth healthcare stocks on the TSX: a cancer treatment developer and a medical marijuana producer. Both have high expected annual earnings increases on the cards, but one is a better buy than the other.

IMV (TSX:IMV)(NASDAQ:IMV)

Medical and healthcare stocks are generally a safe bet when it comes to future outlook. IMV is definitely a good choice in this category: a clinical-stage T-cell activating therapies producer for cancer sufferers with good market positioning.

Valuation is tricky for certain growth stocks of this kind, as P/E and PEG ratios cannot be used; however, in terms of assets, you are looking at a P/B of 19.4 times book for IMV. You're buying for a 47.8% expected annual growth in earnings over the next 1-3 years, which is a good percentage for healthcare stocks on the TSX.

But is this stock good quality? High growth is all well and good, but investors need to know that your money is in good hands. Negative return on equity last year isn't a good sign, here, though a debt level of 50.9% of net worth could be worse. Don't expect a dividend, though a generally upwards trending share price may make this a moderate pick for momentum investors. **Knight Therapeutics** and **Theratechnologies** would be its closest competitors if you want to compare and contrast.

CannTrust Holdings (TSX:TRST)

CannTrust Holdings is one of the leading producers and distributers of medical grade cannabis goods in the country, and well-positioned to be a future leader in the industry. As you may expect for a big cannabis stock after the summer's rollercoaster of deals and headlines, CannTrust Holdings is overvalued by more than 50% of its future cash flow value.

A P/E ratio of 57.7 times earnings may seem reasonable for a stock looking at a 66.4% expected annual growth in earnings – if it's in a proven industry. While medical cannabis already has a market, much of that expected growth no doubt comes from the legal recreational cannabis market, which is as yet untested in this country. A PEG of 0.9 times growth is reasonable, though a P/B of 6.8 times book adds to the currently poor valuation for this stock.

In terms of quality, a return on equity 10% last year beats IMV's by a long shot, while a debt level of 5.6% of net worth is also much better. In terms of trend, CannTrust Holdings' share price has seen a steep uptick since summer declines, giving momentum traders seeking volatility something to work with.

The bottom line

CannTrust Holdings looks the better buy here on most levels, with the exception of valuation. However, even here a P/B ratio showdown would see the marijuana producer come out on top. If these were the only two healthcare stocks on the TSX, it would seem that pharma grade cannabis would clearly be the better investment.

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