Tilray (NASDAQ:TLRY) Stock Has an Enormous P/B Ratio Right Now

Description

Holding on to your pot stocks may be risky if you're looking to cash in on legalization, as so many Canadian investors are. While **Tilray** (NASDAQ:TLRY) got a nice boost at the start of this week when its subsidiary, High Park Farms, reported that it had gotten its licence to sell cannabis products in Canada, it still can't beat one of its biggest competitors trading on both the TSX and NYSE.

With just a couple of weeks left to go, it looks as though marijuana investors are all clear for a home run. However, it may not be that straightforward, with share prices likely to be extremely volatile on initial sales activity as well as any other developments that might come in the run up to legalization, as well as post-October 17. Let's take a look at what Tilray is doing and contrast it with a major Canadian pot stock.

Storming ahead, but are rain clouds gathering?

At first glance, a marijuana player like Tilray with a market cap of $13 billion looks pretty good. A 92.8% forecast annual growth in earnings over the next 12-36 months sounds a little high (pardon the ubiquitous pun) and seems based on fanciful market expectations — or is it the pot (stock) of gold at the end of the rainbow? Should it materialize, shareholders will be in for a serious paycheque if they sell at the optimal juncture.

A P/B ratio of 305.7 times book is horrendous; contrast that with the next stock's one-year losses and they almost balance each other out in terms of badness. Tilray's one-year past earnings growth of -189.2% is similarly awful, though no doubt represents hunger and confidence, and all of those other wonderful words that you can't take to the bank or serve up for dinner. Its own five-year average past earnings growth of 3.2% starts to look decidedly handsome.

Can this Canadian weed stock do better?

All eyes are still on **Canopy Growth** (TSX:WEED)(NYSE:CGC), meanwhile. A market cap of $14 billion and an outlook of a 105.2% growth in earnings put Canopy Growth in the lead between these two eagerly watched pot stocks. It's winning on value, too, with a P/B ratio of 11.1 times book.

A one-year past earnings contraction of 1,021.3% is pretty frightening, and only so much can be said for investment of a company in itself before it looks like it's overreaching. Normally, a debt level of 50.7% of net worth wouldn't look so bad; shareholders had better hope that +100% growth materializes.

In terms of growth comparisons, you can weigh that +1,000% loss against a pharma industry average of 77.4% for the same period if you want to be generous and call Canopy Growth a pharma stock, or 0.4% if you don't. Its own five-year average past earnings growth of 85.1% looks positively peachy next to last year's figure.

The bottom line

Both stocks are too expensive at the moment, though if you have to be in weed stocks, being in Canopy Growth does make sense. If you've already enjoyed some upside, you may want to consider your position: a jump could come in mid-October — or could legalization precipitate a crash if it looks as though strong sales just aren't going to materialize?

Either way, pot stocks are a risky game, and it's almost certainly a bad time to be getting in. Wait to see how things play out — if the industry is as big as they say it is, then there should be plenty of room left for upside after October 17.

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