



3 Great Pot Stocks for Apprehensive Investors

Description

As investors have watched Canada's largest marijuana stocks soar to new high after new high, many are experiencing a serious case of FOMO right now — the fear of missing out. They want these stocks in their portfolios, especially as many traditional value and dividend investments languish.

There's just one problem. With only a couple of exceptions, anything tied to the marijuana industry trades at massive valuations. Many pot companies have barely any revenue and no earnings to speak of. The entire sector is awash in red ink. Investors used to seeing steady profits and dividends just can't look at investments the same way a venture capitalist would.

There's another solution for these folks. It involves buying shares in companies that are likely to expand into the marijuana space — stocks that trade at more traditional valuations. This way, investors can join in the party while limiting downside.

Here are three such names.

Village Farms (TSX:VFF)

Village Farms is perfectly positioned to be a major player in the marijuana industry. The company owns greenhouse space currently being used to grow vegetables. With just a few minor tweaks, this space can be easily converted to cannabis production. It already has a bunch of plant experts on staff too, while other marijuana growers need to hire from outside sources.

The company has already announced it will be at least dipping its toe into marijuana, providing greenhouse space in a joint venture with Emerald Health Therapeutics. Village Farms's initial contribution will be 25 acres — or about 10% of its total greenhouse space — with options for up to 85 acres more.

Value investors will like Village Farms's low valuation, at least compared to other pot stocks. Shares trade hands at 3.2 times book value and just 1.6 times sales. Village Farms has also consistently generated free cash flow, which could shoot much higher in the future. Marijuana is estimated to have EBITDA margins of 50% versus 5% for tomatoes.

Dream Industrial ([TSX:DIR.UN](#))

Greenhouses are well suited for growing marijuana, but the industry will need far more space than what greenhouses can provide. Vacant warehouses and other industrial space will end up providing some of that need. This is good news for Canada's largest owners of industrial real estate.

Dream Industrial owns \$1.9 billion worth of light industrial real estate spread out across Canada. Approximately 10% of assets are located in the United States, too. Current occupancy stands at 96.6% and shares currently pay a 7.3% yield. The company also trades at a discount to its peers on a price-to-funds-from-operations perspective.

I'm the first to admit an influx of marijuana dollars won't make a huge difference to Dream's bottom line. Traditional tenants still matter much more than new money. But a small increase in the bottom line is enough to turn a satisfactory investment into a good one. That's what we're looking at here.

Molson Coors ([TSX:TPX.B](#))([NYSE:TAP](#))

As beer sales continue to stagnate, brewers like Molson Coors are desperately looking for new growth engines. Cannabis-infused drinks could be the ticket.

Molson Coors isn't the only alcohol company that's looking into this. Others have also admitted to doing so. **Constellation Brands** took this a step further, making a big equity investment in **Canopy Growth**. Even **Coca-Cola** has explored making its own cannabis-infused drinks. It's obvious there will be a huge market there.

Investors who buy Molson Coors today are getting a stock trading at close to its 52-week low. It currently offers a dividend yield of just under 3%. Shares trade close to book value and at approximately 13 times forward earnings. While big beer brands — like the ones the company owns — are seeing some weakness, North Americans are still going to keep drinking.

The bottom line

You don't have to miss out on the marijuana boom. By putting your money to work in these three stocks, you can get exposure to the sector while having a safety net if the boom turns to a bust. This might end up the smarter strategy over the long term.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:TAP (Molson Coors Beverage Company)

2. TSX:DIR.UN (Dream Industrial REIT)
3. TSX:TPX.B (Molson Coors Canada Inc.)

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