The 3 Cheapest Cannabis Stocks on the S&P/TSX Composite Index

Description

The cannabis sector is not a friendly place for value investors. With nosebleed valuations, spotty earnings and sky-high revenue growth, these stocks are generally more suitable for the growth-minded. But that doesn't mean that there aren't some comparative "bargains" among the lot. No, you won't find any pot stocks that can compete with banks or utilities for cheapness. However, there are *some* cannabis stocks that are not overly dear at present. And when we factor both price and growth into the equation, these may prove to be better buys than their higher-priced peers.

We can start by looking at the company that's currently the top of the pile for revenue growth.

Aurora Cannabis Inc (TSX:ACB)(NYSE:ACB)

Aurora made headlines in September by posting 223% revenue growth for Q4. The company also technically posted positive net income for the quarter, although this was mostly attributed to unrealized non-cash gains on marketable securities. To translate that into plain English: the positive net income was not actually a result of profitable operations. In terms of operating income, Aurora is still losing money.

So, why is Aurora one of the cheapest pot stocks around? Well, its price-to-sales ratio of 166 is lower than many stocks in the sector. But more fundamentally, analyst estimates give the stock a forward P/E ratio of 59.75. Should earnings grow in line with analysts' thinking, this may be one of the first pot stocks to move out of "insanely expensive" territory.

Aphria Inc (TSX:APHA)(NYSE:APHA)

Aphria is easily one of the cheapest cannabis stocks around. With a price-to-sales ratio of 102 and a price-to-book ratio of 2.74, it's cheaper than Aurora by some metrics. Its trailing P/E ratio of 89 is higher than Aurora's, but the 5-year forward P/E ratio based on **Thomson Reuters** data is a mere 29. Like Aurora, Aphria's earnings largely come from unrealized gains on securities. However, it *has* posted positive operating income in the past. This stock will be one to watch in the months ahead.

CannTrust Holdings Inc (TSX:TRST)

Last but certainly not least, we have CannTrust, which is probably the most consistently profitable cannabis producer. CannTrust is noteworthy for generating positive operating income, which means it's making money from its ordinary business operations. This is in contrast to Aphria and Aurora, which have occasionally posted positive net income, but only as a result of unrealized non-cash gains on securities.

CannTrust has the lowest P/E ratio of all TSX-listed pot stocks, sitting at just 46 for the trailing 12-month period. Its price-to-sales ratio is also the lowest in the sector, at 32.9. Its price-to-book ratio is a little higher than that of Aphria or Aurora, at 5.30. However, on the whole, this is probably the cheapest pot stock on the TSX, owing to a mix of favourable value metrics and a more reliable EPS figure than its peers can boast.

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