Should TSX Investors Hold Canadian Cannabis Stocks Through a Recession?

Description

Should investors hold onto their shares in legal marijuana producers if the markets take a turn for the worse? If the global economic outlook worsens – especially against a backdrop of continued international trade tension and possible further increases in interest rates – a widespread selloff is among the predictable outcomes.

But could Canadian cannabis prove to be evergreen? Below you will find some of the best stocks to potentially hold onto during a recession, including one smart play and a tech stock substitute.

Aphria (TSX:APHA)(NYSE:APHA)

The industry keeps swinging back around to favour this very popular ticker. It has some great stats to back up its popularity, and for once some of the data supports the hype. Up 9.25% in the last five days, this stock is leading the green gold rush powering the post-holidays TSX index rally. A whopping one-year past earnings growth of 94% and five-year average past earnings growth of 89.6% should be cause enough for celebration.

Nothing says "I'm an exciting stock" like a high P/E ratio: Aphria's is up at 47.2 times earnings at the moment, and its P/B is a surprisingly sober 1.5 times book. A sizeable 54.7% expected annual growth in earnings matched with an almost negligible debt level of 3.8% of net worth makes for one of the best-looking pot stocks on the TSX index.

Canopy Growth (TSX:WEED)(NYSE:CGC)

A (very) negative one-year past earnings growth rate and debt that's very nearly half the company's net worth make for two worrying pieces of data for this bloated stock. There's been some inside selling over the last six months, which doesn't suggest great insider confidence – though the temptation to cash in must be pretty great for this overvalued ticker.

One for the momentum investment crowd, Canopy Growth has set the trend for overbought TSX index weed stocks, with a negative P/E, high P/B of 8 times book, and substantial 76.4% expected annual growth in earnings. Should the economy go south, the recreational marijuana industry may enjoy continued sales; in other words, there's some indication that it may be recession-proof.

Perhaps the best Canadian cannabis stock to hold during a recession isn't even a cannabis stock. **Shopify** (TSX:SHOP)(NYSE:SHOP) is shaking out as an interesting analog for weed stocks, as well as a great Canadian tech stock (you don't often see those four words together, so make the most of it).

Overvalued against its future cash flow value, and with a clunky P/B of 9.5 times book, Shopify is mirroring cannabis stocks with its high multiples, chunky 45.8% expected annual growth in earnings, and lack of dividends. A strong capital gains play with a lot of potential upside, Shopify stock may benefit from a potential rise in online transactions versus high street shopping during a market downturn.

The bottom line

It's an interesting time to be critically evaluating the best cannabis stocks to buy now, with so many different companies in the same space and so many investors trading marijuana shares on the TSX index. Trying to figure out the best marijuana stocks to buy in 2019 is a full time profession in itself, with shares in Aphria rocketing to the top of the must-buy list when it comes to investing in the Canadian markets ahead of a downturn.

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