

Forget About Pot Companies: Check Out These 3 Other Sin Stocks Instead

Description

After falling with the market back in November and December, Canada's largest marijuana stocks have resumed their march higher in 2019. Some of the more prominent names are up anywhere from 50% to 75% in the last month alone.

Some investors took a look at this recent move and got excited about the sector again. I did the opposite. I'm certainly not opposed to a good growth story. But I insist on paying at least a reasonable price for it, and that's where Canada's pot stocks fail. They're simply too overvalued, even when accounting for the potential.

Rather than investing in marijuana companies today, I'd urge investors to check out other types of so-called sin stocks. Let's take a closer look at three prominent names that give you access to different kinds of taboo markets.

Molson Coors

Molson Coors Brewing ([TSX:TPX.B](#))([NYSE:TAP](#)) is one of the world's largest bottlers and distributors of beer and other alcoholic beverages. The company's prominent brands include Coors, Molson, Miller, Keystone Light, and Carling.

Shares have struggled over the last year — falling some 20% — based on weak volume numbers. Various micro breweries are eating into the market share of the leaders, including Molson Coors. And some people are cutting back on beer consumption entirely, choosing instead to use legal marijuana or drink something with less sugar.

The company is taking this weakness in stride. It has embarked on a cost-cutting program that should help it boost profits, even if top line sales don't immediately recover. New U.S. tax rates have also helped boost the bottom line. And it has potential to make further acquisitions once it improves the balance sheet.

Shares are quite cheap on a price-to-free cash flow perspective. The company's 2018 free cash flow should total approximately US\$1.5 billion. The current market cap is US\$14.2 billion. That puts shares comfortably under 10 times free cash flow.

Altria

Like Molson Coors, **Altria Group** ([NYSE:MO](#)) is experiencing a decline in its main product line for health reasons. Smokers are giving up the habit in droves.

Altria is stemming this tide in a few different ways. It has hiked prices, which has always been a successful move. It has also announced a big investment in marijuana, which is experiencing much

better growth right now. Management also likely thinks it's only a matter of time until marijuana is legalized across the United States. And finally, Altria bought a large stake in e-cigarette maker Juul.

Many investors use Altria's dividend yield as a lazy way to determine its valuation. Altria's shares currently yield a hair over 6%, which is much higher than average over the last five years. Analysts agree: shares trade hands at a mere 11.3 times forward earnings expectations.

A&W

There are a few healthy choices on its menu, but **A&W Revenue Royalties Income Fund** ([TSX:AW.UN](#)) will always be a burger and fries restaurant.

A&W has managed to successfully grow in a highly competitive market by focusing on the highest-quality ingredients, serving consistently delicious food, and using smart marketing to convey its value proposition to the Canadian public. It has also done a nice job using various types of stores to open in non-traditional locations. It seems like every small town in Alberta, my home province, has an A&W. Most other chains ignore small centres completely.

A&W shares have never been traditionally cheap. They currently trade hands at nearly 30 times trailing earnings. But the stock has still performed admirably, showing investors it's profitable to pay up for quality.

In its most recent quarter, A&W delivered a fantastic 13% same-store sales increase. It's unlikely the company can maintain that kind of growth over the long term, but anywhere from 3% to 5% growth should provide investors with a satisfactory return. And remember, shares pay a 4.6% yield with plenty of dividend-growth history.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:MO (Altria Group, Inc.)
2. NYSE:TAP (Molson Coors Beverage Company)
3. TSX:AW.UN (A&W Revenue Royalties Income Fund)
4. TSX:TPX.B (Molson Coors Canada Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/07/19

Date Created

2019/02/05

Author

nelsonpsmith

default watermark

default watermark