Can New Canadian Investors Still Harvest Upside From This Crop of Weed Stocks?

Description

From luxury clothing to gold miners, the TSX index has more than its fair share of growth stocks. But one Canadian growth industry has the potential to line investors pockets with more upside than possibly any other: medical and legal recreational marijuana.

While some investors may be content to buy and hold stocks for their dividends, short-term traders and those bullish on this new industry long term have been rolling up their sleeves and getting stuck into legal cannabis stocks, such as the following three popular picks. But have the good times ended or is there still a chance to jump on and make a profit?

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

Down 2.96% in the last five days, Canopy Growth had, until recently, been galloping back to its mid-September peak. A stock that's almost as hard to predict as the TSX index itself — though in seemingly contrary ways — Canopy Growth has the potential to reward any investor with enough nerve and sense of timing who dares to buy in.

While Canopy Growth is looking at a 109.5% expected annual growth in earnings, there are a few reasons why one might want to hold off: A negative one-year past earnings record underperformed Canadian pharma for the same period, and though its P/E and PEG ratios are skewed by that lack of growth, a P/B ratio of 8.7 times book indicates overvaluation. Carrying a level of debt that's almost up at half its net worth at 49.4%, the risk averse may want to add it to a watch list rather than jump in feet first.

VIVO Cannabis (TSX:VIVO)

Having shed 2.83% in the last five days, VIVO Cannabis had likewise been on the up. Its beta of 2.24 relative to the Canadian pharma industry shows that there's enough volatility here to keep a sharp-eyed momentum investor interested, and with a 101.7% expected annual growth in earnings on the way, anyone looking for a pot stock to buy and hold might be onto a winner.

However, there is something of a dichotomy here: while a value investor might be pleased to hear that VIVO Cannabis has a low P/B of 1.3 times book and discount of 47% against its future cash flow value, this might not interest short-term traders looking to make a fast buck. For those that do want to buy and hold, though, a low debt level of 12.6% makes for a low-risk investment.

CannTrust Holdings (TSX:TRST)

Down 0.69% in the last five days (down from an impressive climb of 7.48%) CannTrust Holdings has been rising steadily since December. Indeed, the recovery in marijuana stocks after the holidays has been palpable. Now, however, they all seem to be dipping in unison.

With a 43.2% expected annual growth in earnings, CannTrust Holdings isn't looking at as steep a rise as its peers above, but it should still interest the growth investor. It's a mixed bag, though, with a clean balance sheet indicated by a low debt level of 5.5% of net worth let down by high market fundamentals.

The bottom line

Trading at around 27 times its projected cash flow value, Canopy Growth isn't what you'd call a cheap stock at the moment. Nor is CannTrust Holdings, with its P/E of 51.9 times earnings and P/B of 5.5 times book. Still, there is the potential for upside in all the stocks listed here, and as such they offer intriguing capital gains plays in the TSX index's marijuana sector.

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Date
2025/08/05
Date Created
2019/02/10
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