2 Top Canadian Cannabis Stocks for a First-Time Buyer, Plus 1 to Avoid

Description

Yesterday wasn't a good day for cannabis stocks, with the sector largely depressed across the board. **Canopy Growth** (TSX:WEED)(NYSE:CGC) came in for a particular thrashing from an activist shareholder vowing to vote against its plan to buy **Acreage Holdings Inc.** once cannabis is legalized in the U.S.

Marcato Capital Management LP stated in an open letter to Acreage's board that it sees the deal as "value destructive," describing the offer as "substantially lower than the fair value of Acreage based solely on the present value of Acreage's future cash flows."

Are these still the front-runners in Canadian cannabis?

Down 5.35% in the last five days, weed stocks are having a hard time if even Canopy Growth is on a dip. However, down 6.57% over the last five days, **HEXO** (TSX:HEXO) is taking even more of a battering than Canopy Growth at the moment.

That said, both remain TSX stocks to watch in the Canadian cannabis space, and are the top choices among some analysts. Returning 117.6% in the past year, Canopy Growth has proved to be a lucrative investment. Furthermore, with its low debt at 10.7% of net worth, acceptable (if slightly high) P/B of 3.1 times book and significant 62.9% expected annual growth in earnings, this stock is a good marijuana entry point.

HEXO, on the other hand, is a Canadian weed stock that some analysts view as potentially even more favourable than Canopy Growth as an entry to the cannabis market. With similar returns of 114.1% over the last 12 months, its outlook is a little better than that of Canopy Growth, with a 63% annual growth in earnings on the way over the next couple of years. Meanwhile, debt is not an issue for HEXO, resulting in a clean bill of health when it comes to its balance sheet.

HEXO's future cash flow relative 9% discount may not be significant in the big scheme of things, butit's nice to see in a pot stock; as well, its P/B of 5.1 times book doesn't seem too high a valuation interms of real-world assets.

A pot stock to steer clear of?

Down 4.63% over the last five days, **Cronos Group** (TSX:CRON)(NASDAQ:CRON) is another high-flying stock — one with impressive year-on-year returns of 201.8%. With a beta of 4.25% relative to the market, it would be a clear buy for the momentum crowd were it not for the inherent uncertainty of the industry coupled with Cronos Group's clear overvaluation.

Selling at over eight times its future cash flow value and 18.8 times its book value at writing, Cronos Group is intrinsically bad value for money at the moment. While a 79% expected annual growth in earnings is enough to excite the general growth investor, it should perhaps be noted that Cronos Group insiders ditched a high volume of shares in the last three months.

The bottom line

With a beta of 4.91 relative to the **TSX Index,** HEXO is a volatile investment, intrinsically more so than Cronos Group. Additionally, HEXO insiders have sold more shares than they have bought in the past three months, with more than $2 million worth of shares going back into circulation make money with stocks. The takeaway message here is that while the returns are high, even the favourite marijuana stocks are inherently risky investments.

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2. NASDAQ:CRON (Cronos Group)
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