Only 1 of These 2 Canadian Marijuana Stocks Is a Solid Buy

Description

U.S.-China trade worries are back in a big way this week, with TSX futures down on the possibility of increased tariffs that threaten to inflame the Sino-American trade war. Risky assets have been taking a battering as a result, with Canadian marijuana taking a hit.

Indeed, the wobble in the markets couldn't have come at a worse time for the burgeoning cannabis sector, with Statistics Canada reporting that Canadian marijuana retail sales fell by a whopping 7% in February compared to the data for January.

However, this is good news for anyone looking to make money buying cannabis stocks, as the best time to get in is when the market is down. While some analysts south of the border suggest that ETFs that carry marijuana assets are an easier way to get invested, the pure-play option arguably remains the most lucrative. Let's take a look at two front-line stocks in Canadian marijuana and see how their stats shape up.

HEXO (TSX:HEXO)

With 105.9% returns over the past year, HEXO belongs in the elite list of outperforming marijuana stocks. Two key metrics really stick out for HEXO: its strong balance sheet, typified by a lack of debt, and its outlook in terms of expected annual earnings. However, HEXO insiders have sold more shares than bought them in the past three months, with more than $2 million worth of shares going back into circulation, so is it a risky investment?

One key metric to keep an eye on would be HEXO's forward P/E, which, at 41.84 times earnings, suggests that no matter where a new cannabis investor jumps in, it's always to going to be too far up the ladder. That said, while a P/B of 4.9 times book is high, it's not the highest in the industry. With a 63% expected annual growth in earnings on the way, HEXO is a solid buy.

Aphria (TSX:APHA)(NYSE:APHA)

Down 6.53% over the last five days, Aphria stock has taken a walloping along with the sector; however, up 3.78% on the day and rising, it looks as though cannabis investors have already started buying the dip.

However, with negative returns for the last year, Aphria falls short of the top tier of cannabis stocks currently occupied by HEXO, **Canopy Growth**, and **Cronos Group**, all of which have seen returns in excess of 100% over the last 12 months.

However, it's not as volatile as some of the higher-performance marijuana stocks, with a lower beta of 3.09 relative to the market. It's also technically not as overvalued, with a P/B of 1.3 times book. That said, while its trailing 12-month P/E is not applicable, as is the case with the majority of marijuana stocks, a high projected forward P/E shows that value is not going to be Aphria's strong suit moving forwards.

Despite a low level of debt (at just 4.5% compared to Aphria's net worth), negative operating cash flow makes for a poor balance sheet overall and ups the risk factor. Indeed, this would be one of the biggest red flags for this stock, alongside a high forward P/E and negative past-year returns.

The bottom line

Having shed 4.56% in the last five days, HEXO is a cannabis stock to buy on the dip. It should perhaps be favoured over some of its competitors, some of which exhibit higher overvaluation, or, like Aphria, represent slightly riskier investments. However, with a 129% projected earnings growth, the latter stock could technically have the potential to reward with the most upside.

CATEGORY

1. Cannabis Stocks
2. Investing
3. Stocks for Beginners

POST TAG

1. Cannabis

TICKERS GLOBAL

1. TSX:HEXO (HEXO Corp.)

PARTNER-FEEDS

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

Category

1. Cannabis Stocks
2. Investing
3. Stocks for Beginners

Tags

1. Cannabis

Date
2025/08/26
Date Created
2019/05/08
Author
vhetherington