



Is This the Best Stock to Buy for New Marijuana Investors?

Description

Buying in to the “green gold rush” is by no means as easy as some persuasive headlines will have you think, with a range of options and strategies clamouring for your hard-earned dollars. However, combing through the data as one would for any other stock investment turns up a few interesting pointers in the [Canadian cannabis](#) space, with an early front-runner taking shape.

Is this the best entry point for new marijuana investors?

Industry favourite **HEXO** ([TSX:HEXO](#)) saw returns of 92.3% that beat the Canadian pharma industry's returns of 11.2% for the same period this past 12 months. Also, while past earnings growth rates generally aren't a metric to go by in this sector just yet, it's worth noting that HEXO's one-year rate of 36.2% is encouraging and indicates a top-tier cannabis investment. Growth is really what the marijuana sector is about, and these early signs are encouraging.

While HEXO's beta of 4.91 relative to the TSX index is one of the highest among the top tier of Canadian marijuana stocks and is highly suggestive of a volatile investment that should remain out of a casual long-term stockholder's purview, the brave short-term trader ought to take note: HEXO has the potential to reward with [serious upside](#).

Inside selling is an issue here, though, with HEXO insiders having sold more shares than bought them in the past three months, with millions of dollars worth of stock returning to circulation. While investors who don't take too much notice of inner circle confidence shouldn't pay this much mind, the would-be buyer will have to balance a chunky P/B of 4.8 times book with a significantly high 63% expected annual growth in earnings.

Can this competitor still steal HEXO's spotlight?

Compare all of the above with a few of the stats for a serious competitor in the cannabis space: overvalued by around twice its future cash flow value, though with a P/B of 1.4 times book that gives nothing away, **Aphria** (TSX:APHA)(NYSE:APHA) is arguably an expensive stock that does its best to

hide behind market level valuation in terms of its assets. HEXO's valuation is the reverse: it has a high P/B, but a 15% future cash flow discount that suggests intrinsic undervaluation.

A metric that is sometimes overlooked by momentum investors, Aphria's beta of 3.09 relative to the TSX index as a whole is lower than HEXO's, which suggests that the latter's share price reacts more wildly to market turbulence, giving HEXO the potential to reward — and wound — with greater intensity. However, with a stratospheric 129% expected annual growth in earnings, Aphria may win out in the end.

The bottom line

Cannabis investing remains one of the most exciting new ways to make money with stocks on the TSX index, with portfolio owners queuing up to invest in the fledgling Canadian growth sector. There are certainly strong growth prospects for both of the marijuana stocks listed above, though an early winner may seem to be HEXO. Finding a stock with no long-term commitments is always a boon, and HEXO's debt-free balance sheet certainly goes a long way towards its buy signal.

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1. Cannabis Stocks
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TICKERS GLOBAL

1. TSX:HEXO (HEXO Corp.)

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