Paranoia in the Markets: 4 Hot Cannabis Stocks to Ponder

Description

Though **Canopy Growth**'s (TSX:WEED)(NYSE:CGC) deal with **Acreage Holdings Inc.** should perhaps have been a cause for celebration in the cannabis stock trading community, the somewhat negative press that followed, including criticism of the deal, seems to have hurt the sector more than might have been expected.

This came right at a time when extra uncertainty was being piled onto the markets, thanks to an increase in tension in the U.S.-China trade war, as well as other potentially major geopolitical machinations worldwide.

Resultantly, down 5.73% in the last five days, there is a clear advantage here for investors looking to buy the dip – though they do so at their own risk in the current climate of market uncertainty. While Canopy Growth's year-on-year returns of 84.1% have been solid against the Canadian pharma average of 11.2% for the same period and should entice the capital gains investor, a high-ish P/B of 2.9 times book does suggest persistent overvaluation despite that price drop.

Two more top stocks to buy — and one risky play

Focused primarily on Canada, and ostensibly not as interested in pushing south of the border ahead of the potential legalization of pot in the United States, **Aphria** (TSX:APHA)(NYSE:APHA) is a cheaper play than Canopy Growth, with a P/B of 1.4 times book. Aphria has a superior outlook as well, with a 129% expected growth in earnings on the way.

HEXO (TSX:HEXO), on the other hand, continues to both entice and concern the new cannabis stock trader, with juicy past-year returns of 93.2% let down somewhat by a price-to-book of 4.8; meanwhile, a tidy 63% projected earnings growth and a balance sheet devoid of debt, is undermined by insiders having sold more shares than bought them in the past three months, and in high volumes.

A negative outlook according to the data leaves something of a question mark over **Cronos Group** (TSX:CRON)(NASDAQ:CRON) at the moment. Meanwhile, however, its 168.7% return over the last 12 months is exceptionally high. A significant past-year ROE is let down by Cronos Group's negative operating cash flow, which casts a shadow over Cronos Group's balance sheet, even though there's very little debt on its books.

Speaking of books, Cronos Group is clearly overvalued in terms of both future cash flow value and its P/B, which, at seven times book, is among the highest of Canada's top tier of marijuana stocks. As is the case with HEXO, conflicting data poses a headscratcher: a high past-year earnings growth rate is undermined, as with HEXO, by insiders shedding a large volume of Cronos Group shares in the last three months.

The bottom line

Canopy Growth's 64.5% projected growth in earnings is not as significant as Aphria's, while its debt level of 10.7% of net worth, though not too high to be a concern, represents a growing liability in its books. Aphria seems to come out on top overall, though HEXO's clean balance sheet makes for an attractive, relatively low-risk play in the Canadian cannabis space.

Meanwhile, with a beta of 4.03 compared to the TSX index, Cronos Group is still one of the more volatile stocks in the Canadian legal cannabis space.

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Author
vhetherington