Weed Wars: 3 of the Best Canadian Cannabis Stocks Go Head-to-Head

Description

The **TSX Index** has been a destination for marijuana investors for a while now, and though the actual legalization of the drug didn't have the explosive effect on the sector that some pundits had been predicting, the green gold rush is still underway.

With new investors and seasoned pros alike getting invested in Canadian cannabis, discussions about which stocks to buy seem to have centered around a core of now-familiar tickers. Below we will take a look at the market data and outlook for three of the best and see whether they belong in a new cannabis investor's portfolio.

The low-risk, high-growth option

After a serviceable first-quarter earnings report, **Green Organic Dutchman** (TSX: TGOD) is still a solid buy and a strong addition to a Canadian cannabis portfolio. At $3.89 a pop at writing, Green Organic Dutchman is trading with a 31% discount off its fair value of $5.64, meaning that there is still some way to go before this stock hits its true potential.

The main reason why this stock is a lower risk than some of its competitors in the legal weed space isn't just because it holds only 0.6% of debt compared to its net worth, as low debt is a characteristic of several of the top tier of Canadian pot producers. Green Organic Dutchman also has a longer cash runway – but we'll come to that shortly.

Fair valuation can be seen in the discount mentioned above, and while a P/B of 2.6 times book may be high compared to somewhat more traditional stocks such as bankers and utilities, it's not too mad a valuation compared to other high growth options. Speaking of growth, a 108.3% increase in earnings is expected over the next one to three years, making for a solid play in the legal weed space.

Two competitors with matching P/B ratios

With past-year returns of 81.4% **HEXO** (TSX:HEXO) is a popular and solid choice. Its price-to-book of

4.5 is higher than that of Green Organic Dutchman, though at $9.25, HEXO sells at a 19% discount off its future cash flow value, with some way to go before hitting a "fair" price just over the $11 mark. Boasting a balance sheet clear of debt and looking forward to a 63% projected earnings growth, HEXO is still a frontrunner.

Meanwhile, at $8.06 a share, **CannTrust Holdings** (TSX:TRST) is trading at a 32% discount off its fair value, which at $11.94 means that there's potentially more upside to be squeezed from this weed producer than from HEXO. This may be backed up by a higher expected annual growth in earnings of 95.6%. However, it carries higher debt at 8.2% of net worth and saw negative one-year returns, making the previous stock a better buy of those metrics are more important to an investor.

The bottom line

With less than a year of cash runway based on their current free cash flows, both HEXO and CannTrust Holdings may be something of a risky investment, so would-be stockholders will have to weigh the potential for capital gains from both stocks and determine their appetite for risk. Green Organic Dutchman does not have this issue, however, with a 1.2 year cash runway covering a low level of debt. According to this metric, it's a less risky play.

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