2 Pot Stocks to Buy Now and 1 to Avoid

Description

It's been a crazy year for cannabis investors. After a roller-coaster ride from last summer until now, investors have seen their pot stocks rise to record-setting heights, only to come crashing back down. While some short-sellers out there are likely celebrating, lately there hasn't been much to celebrate with share prices around half of where they were in the summer of 2018.

There is a light at the end of this tunnel, as there is the opportunity to buy up these stocks while the industry is down. However, not all cannabis companies are alike. Now is a great time to dig deeper into each company you're considering and question whether those companies belong on your watch list; especially ahead of the one-year anniversary of cannabis legalization in Canada and the legalization of edibles.

Canopy Growth

Ahead of its first-quarter results on Aug. 14, **Canopy Growth** (TSX:WEED)(NYSE:CGC) has a lot to prove. The company has had quite the shakeup recently, with CEO and founder Bruce Linton being let go, and its peers posting or promising strong numbers that Canopy needs to match.

Analysts expect the company to grow sales by 17% after expanding its capacity in the last year and creating a better product mix while lowering production costs. Yet the real cash comes when edibles become legalized, as the company has made a substantial amount of partnerships that will significantly add to Canopy's cash flow beyond merely recreational marijuana.

The stock is up about 10% year to date but is much farther down from where it was at the end of April by 38% as of writing. For long-term investors, this price is a steal, as the company continues to expand its production and create more partnerships. Analysts project the company to be trading as high as $100 per share in the next 12 months — a potential upside of 133%.

Aurora

Another company that has a lot to prove but seems to be on the right track is **Aurora Cannabis** (TSX:ACB)(NYSE:ACB). Aurora recently told investors it's expecting strong results in its next earnings report, with net revenue hitting between $100 and $107 million — an increase of 460% from the same time last year.

While these results are great, investors should be looking at the future of Aurora. Right now, the company can produce 150,000 kilograms of cannabis per year. However, by June of 2020, that number should skyrocket to 625,000 kilograms, if not even higher. That means it should have no trouble meeting the needs of Canadians before expanding to the 24 countries where it has a presence.

While shareholders haven't liked the dilution of shares to make acquisitions over getting a partnership, long-term investors should look past this. The stock is up 24% year to date and down 34% from where it was in March. Yet in the next 12 months, analysts expect the stock to even double from where it is at writing to around $16 per share.

Hexo

So, with two cannabis companies that I would add to your watch list, that leaves **Hexo** (TSX:HEXO)(NYSE:HEXO) as the one I would probably avoid — at least for now. The company's latest earnings results weren't that great to start with, as the company posted a decline in revenue to $13.43 million.

Further worries came as co-founder Adam Miron stepped down, leaving many to speculate why he could have been let go by management. With other companies usually giving a reason for such a firing, nothing has come from Hexo, leaving many investors worried that a dire announcement could be imminent.

In the meantime, the company has a few deals in the works, but nothing that compares to Aurora or Canopy. Hexo has a partnership to produce cannabis-infused beverages, and a deal with Newstrike that should boost cultivation capacity to 150,000 kilograms. While that's great news for Hexo, it's far away from the production capacity of many other cannabis companies.

The stock is up about 8% year to date and down 46% since the end of April. In my opinion, I would leave Hexo alone for now.

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Date
2025/08/26
Date Created
2019/08/11
Author
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