



Should You Buy Canopy Growth (TSX:WEED) or CIBC (TSX:CM) Stock Today?

Description

Pot stocks and banks have fallen out of favour with the market in the past few months, and that has contrarian investors wondering if this might be a good time to add unloved marijuana stocks or financials to their [portfolios](#).

Let's take a look at **Canopy Growth** ([TSX:WEED](#))([NYSE:CGC](#)) and **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) to see if one deserves to be on your [buy list](#) today.

Canopy Growth

Last August, Canopy Growth became the poster child for the budding cannabis sector when it announced a \$5 billion investment from U.S. alcohol giant **Constellation Brands**. The deal came just ahead of the highly anticipated launch of the Canadian recreational marijuana market and sent a message to the broader market that marijuana companies were now mainstream players.

Canopy Growth soared from \$32 per share before the deal to \$42 on the announcement and continued to drift higher up to the launch of the recreational market. After topping \$73 in October, the stock slid back to \$36 in late December on a broad-based pullback in the equity market and profit taking after the initial weeks of recreational sales ran into supply and order-fulfillment issues.

The stock then recovered sharply, hitting a closing high of \$67 in late January and nearly \$70 per share in April 2019.

Since then, the turbulence has continued. Constellation Brands, apparently unhappy with the size of the ongoing losses, ousted Canopy Growth's founder and co-CEO Bruce Linton in early July. This added pressure to the already declining stock price. Canopy then released quarterly results in August that showed a drop in revenue and lower margins compared to the previous quarter.

At the time of writing, the stock is below \$32 per share, essentially where it was right before Constellation Brands announced it was paying more than \$48 per share to boost its stake in the cannabis producer to 38%.

The stock certainly appears more attractive today than it did at the end of April, but investors should be careful. The entire cannabis sector still looks expensive, and the market might continue to drive down valuations if the growth outlook starts to be less robust than expected.

If you like the long-term global cannabis opportunity, Canopy Growth should be one of your top picks, but I would stay on the sidelines until the latest correction has clearly run its course.

CIBC

CIBC traded for \$122 per share a year ago. Today it is at \$103, and that's after a nice pop from \$98 after the company reported solid fiscal Q3 results.

CIBC is heavily reliant on the Canadian housing sector, and fears about a possible meltdown as interest rates increased hit the stock late last year. Since then, the U.S. Federal Reserve has cut rates and the Bank of Canada is on hold, with expectations mounting that the next move will be to the downside. In addition, a rally in bond markets is driving down yields, and that is translating into lower fixed-rate mortgage costs.

The result should be a rebound in home sales in Canada, as more people can afford to get into the market. At the same time, people who have to renew their mortgages are going to get favourable rates.

The bottom line is that the Canadian housing market appears to have found a soft landing and that bodes well for CIBC.

The company remains very profitable and just hiked the dividend. Investors who buy at the current price can pick up a yield of 5.6%.

Is one a better bet?

Canopy Growth might be tempting at \$30, and a new rally could certainly take it back to \$60 in a matter of weeks. However, the downside risk still appears a bit scary right now, so I would avoid the cannabis stock. Other niche players might be better ways to play the broader marijuana sector without betting on the producers.

CIBC is trading at a multiple that you would expect during a financial crisis, and that isn't the case today. The stock appears oversold, and investors can get paid an attractive dividend while they wait for sentiment to shift.

If you are looking for a contrarian pick, I would go with CIBC over Canopy Growth.

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