



## 2 Cannabis Stocks Just Hit a Massive Buy Signal

### Description

**Alimentation Couche-Tard** (TSX:ATD-A)(TSX:ATD-B) shareholders shouldn't worry about the planned [2-for-1 stock split](#) on September 20. The stock split likely represents the company's confidence that this year's capital gains are not only sustainable but will continue into next year.

Alimentation Couche-Tard stock has been flying on the **Toronto Stock Exchange** (TSX) since announcing its intentions to expand its investments into the cannabis industry. In the past year, the stock soared 30% to nearly \$87 per share from just over \$65.

Canadian investors should keep an eye on Alimentation's most notable cannabis investment: **Fire & Flower Holdings** ([TSX:FAF](#)). At the beginning of August, Alimentation announced the purchase of over 24 million shares in Fire & Flower, representing a 9.9% ownership stake.

More important, however, is that Alimentation also retains Common Share purchase warrants that will, upon exercise, increase Alimentation's ownership stake to just over 50%.

**Constellation Brands** also began with a 9.9% initial ownership stake in **Canopy Growth** with the option of majority interest in warrants. It is safe to assume that Fire & Flower's stock price will gradually appreciate as Alimentation exercises these warrants. Along with Fire & Flower's success, the value of Alimentation's shares will also increase.

The pair is ultimately a good match. Because Fire & Flower's retail margins are weak compared to major competitors, Alimentation was able to snatch up its ownership stake at a bargain price.

Even better is that Alimentation's strength is maximizing retail margins. Shareholders have every reason to feel confident that Alimentation can help Fire & Flower become a competitive cannabis powerhouse.

### The risk?

Although not necessarily an issue, Alimentation stock is indeed pricey, with above industry-average

shares outstanding of over 560 million. The high valuation most likely reflects shareholder optimism in the success of Alimentation's cannabis investments.

By comparison, **Loblaw** ([TSX:L](#)) total shares outstanding stand at 366 million, 50% less than Alimentation. After Alimentation's 2-for-1 stock split, Couche-Tard shares outstanding will be three times that of Loblaw.

Meanwhile, Loblaw's share price will not even be twice that of the expected \$45 Alimentation share price post-stock split. After the 2-for-1 exchange, Alimentation shares will start selling for half the current share price of just under \$90.

Also, shareholders in Alimentation will still receive just a low 0.58% dividend yield when they could be cashing in on the 1.69% yield at Loblaw. Thus, ATD shareholders are betting on further capital gains. If demand proves to be less potent than necessary for the stock to maintain price momentum post-split, shareholders could see their returns dwindle.

## Foolish takeaway

The number one mistake that Tax-Free Savings Account (TFSA) investors are making today is not taking on enough risk in their portfolios. There is no such thing as a risk-free investment, but even bad investments pay off in other ways. One of the smartest investors once said that losses in the stock market are nothing more than [expensive lessons](#).

The best decision Canadian investors can make today is the choice to diversify long-term savings in high-return assets, which means that Canadian investors should buy shares in both Alimentation and its lower-priced peer, Loblaw.

Finally, at around \$1.50 per share at writing and the backing of a politically powerful brand such as Couche-Tard, TFSA investors should consider at least a 100-share investment in Fire & Flower. The low share price makes this a practically risk-free investment with the prospect of substantial long-term returns.

## CATEGORY

1. Cannabis Stocks
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

## TICKERS GLOBAL

1. TSX:ATD (Alimentation Couche-Tard Inc.)
2. TSX:FAF (Fire & Flower)
3. TSX:L (Loblaw Companies Limited)

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