Which Canadian Cannabis Stocks Should You Buy in May?

Description

Canadian cannabis could yet be the growth success story of the decade. It's a crowded space, though, with potentially limited market share. Gone are the days of seemingly endless upside. Newcomers to the Canadian cannabis space have disappointingly few really solid options for long positions. However, two of the best Canadian cannabis producers are looking like a strong buy for pot stock investors at the moment.

The large-cap play for cannabis stock growth

There are few Canadian cannabis stocks better known than **Canopy Growth** (TSX:WEED)(NYSE:CGC). This stock is among the first choices for investors coming to the TSX pot stock space for the first time. It's been on Jim Cramer's radar of late and packs celebrity endorsements and corporate expertise. Canopy also has an 18-month cash runway, making for a substantial mid-virus safety net.

The market recently reacted positively to **Constellation Brands**' exercising of warrants issued in 2017 to buy common shares in Canopy. The warrants accounted for around 5.1% of Canopy's outstanding shares at the time of issuing. Bullish investors pushed Canopy up 8.5% in response. Constellation's stake now stands at 38.6% and could rise to around 55.8% if it exercises all outstanding warrants.

Constellation CEO Bill Newlands said, "While global legalization of cannabis is still in its infancy, we continue to believe the long-term opportunity in this evolving market is substantial." Newlands added, "Canopy is best positioned to win in the emerging cannabis space, and we are confident in the strategic direction of the company under David Klein and his team."

Look for cash-richness and streamlined business models

Canopy has also been streamlining its operations in a bid to concentrate its strategy of market penetration. Combined with its cash-rich status, investors have a strong play in Canopy for corporate savvy and a downsized business model. Reducing capex is a major theme for corporations at the moment. Reduction of cash burn is therefore a key indicator for long-term investors seeking responsive management.

Aphria is another popular name in Canadian cannabis. This name is one of a mere handful of such stocks that belong to the "cash runway" set. Its run of reassuring quarters puts Aphria squarely in a collection of stocks that includes Canopy, **Cronos Group**, and **Village Farms**.

These stocks are looking sturdy enough to navigate the currently fraught economic climate, as well as the overcrowded cannabis space itself.

Granted, these cash runways are measured in terms of months. Buying for this quality alone assumes sector stability at some point over the course of the next 12 to 18 months. Whether this can be achieved relies on several things.

First, the retail environment, especially in Ontario, needs to be optimized. Second, clarity in the U.S. cannabis market needs to be achieved. These factors are key to long-term profitability.

The bottom line

The low-risk investor seeking Canadian cannabis stock upside have a strong pick with Canopy. However, other names like Aphria, Cronos, and Village Farms should also be considered for long positions. All four stocks have the potential to dominate the sector in the long-term.

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