



TSX Stocks: Is Cannabis Still a Good Investment?

Description

TSX pot stocks have had one of the worst 12-month periods since the sector began trading publicly only a few years ago.

After years of incredible gains as the anticipation grew ahead of legalization, valuations have come crashing down on the reality of slower-than-expected growth in the sector.

Despite growth being slower than expected, it's still a top long-term growth industry going forward. However, with so many other high-quality stocks trading at discounts, are pot stocks even worth an investment today?

TSX pot stocks today

The cannabis sector today is still in its early stages. In Canada, the recreational industry is still going through growing pains. And internationally, the medical market continues to evolve slowly.

The sector will no longer have quick overnight growth. However, there are still gains to be made.

While cannabis is a top long-term growth industry, it faces considerable headwinds in the short run.

Factors such as too much capacity, a weak Canadian consumer, and slower international growth will all weigh on TSX cannabis stocks in the short term.

Over the long haul, as demand grows and companies can ramp up all the production capacity they have built, they will start to be successful again.

Until then, it will be a difficult road ahead, especially for some of the bigger companies, to manage costs and break even for the time being.

What to buy instead of TSX pot stocks

In the current market environment, there are several choices that are considerably more attractive than TSX pot stocks.

Although they have sold off considerably in the last 12 months, so too have plenty of other TSX stocks. Furthermore, a lot of the prices these cannabis stocks were declining from were overvalued, optimistic valuations that could take the companies years to get back to.

Instead, if you're looking to buy a high-quality TSX growth stock, I would consider adding a company like **Dollarama** ([TSX:DOL](#)).

Dollarama has had incredible growth over the last decade. From 2010 to 2020, the stock grew by roughly 1,100%.

During the last recession, consumers found ways to save money by purchasing inferior goods from discount stores like Dollarama. At that point, Dollarama had roughly [500 locations](#).

As the recession ended and income levels started to rise, consumers generally stuck to their new habits, going to discount stores for more of their essential needs.

Dollarama took full advantage of this, and what followed was over a decade of rapid growth from the company.

Dollarama today

Today, [Dollarama](#) is a massive TSX stock with more than 1,200 stores across Canada and a target to get to 1,700 by 2027. While that growth looks to be promising, for its ambitious management team, it's not enough. And as with any company that gets to be this size, growth becomes more difficult.

Dollarama has looked to other countries to continue its dominant expansion.

In 2019, the company bought a majority stake in Dollar City, a Latin American dollar store chain. This will help diversify the company geographically as well as increase the growth rate of the business.

At the end of 2019, Dollar City had over 200 locations and has a long-term growth target to get to 600 stores by 2029.

Bottom line

The sky is the limit for Dollarama, one of the fastest-growing as well as defensive TSX stocks. This makes it an extremely attractive stock to buy today.

The business should remain resilient in the short term and has incredible potential long term.

With numerous attractive stocks that have long-term potential like Dollarama, investors don't need to buy pot stocks for high-quality growth.

In the current environment, there's just too much risk and not enough reward in the cannabis space.

CATEGORY

1. Cannabis Stocks
2. Investing

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