



2 Risky Pot Stocks With Options Upside

Description

Despite the now modest valuation metrics to be had in some of the cheaper pot stocks out there (**Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) stock trades at a mere 0.7 times book value at the time of writing), the cannabis trade remains unfit for strangers to volatility. For everybody else who's willing to take short-term pain for a shot at an outsized longer-term gain, though, certain cannabis plays are a risky investment proposition that are worth taking a chance on.

While there's no telling whether the cannabis trade will heat up again following the [Aphria-Tilray mega-merger](#), which grabbed headlines a few weeks ago, I still think the compelling valuations to be had in some of the cheaper licensed producers (LPs) are not just mere value traps. While I'm not a fan of playing acquisition roulette with some of the junior players in the cannabis scene, the risk/reward does look enticing for those willing to hold for at least five years as we move deeper into the industry's consolidation phase.

If you're keen on gaining some exposure into the budding cannabis scene now that momentum-chasing speculators have moved on to sexier trades, you may want to have a second look at Aurora Cannabis and **Canopy Growth** ([TSX:WEED](#)), three compelling pot stocks for fearless young investors on the hunt for options-like upside.

Aurora Cannabis

Aurora stock is back on the retreat after its massive upward spike following news of a favourable U.S. election result. The stock's roller coaster ride is likely only just beginning, so if you're just looking to make a quick buck, it may be a better idea to look elsewhere, as you could be hit with high double-digit percentage downside in as little as a few days.

To take advantage of the near-30% discount to book value, you're going to need the patience and time horizon to hang in through the massive ups and downs until some industry catalyst or better-than-expected quarterly enticed Mr. Market to correct shares to the upside.

As a deep-value investor, you'll need the stomach and patience to wait, potentially for years, before Mr.

Market can slap on a market price that's anywhere close to the stock's intrinsic value.

Aurora has been steadily reducing its cash burn rates and could find itself en route to sustained profitability at some point over the next few years. Once the company gets its bottom line in the green, the stock could find itself on a sustained rally towards \$40. That said, nothing is stopping Aurora stock from plunging into the low single digits on industry-wide bad news before the stock can correct upwards.

At just over six times sales, Aurora stock looks to have a wide margin of safety. Just mind the volatility!

Canopy Growth

With the Aphria-Tilray merger, Canopy is no longer the cannabis king. With a big-league investor in Constellation Brands, Canopy may be viewed as a safer player in the space, given its dance partner has some pretty deep pockets.

With a strong international footprint, a robust roster of brands, and an established behemoth in the sin industry standing in its corner, Canopy should be viewed as one of Canada's safer LPs. That said, the stock looks to have limited upside relative to almost every other producer out there.

At the time of writing, Canopy stock trades at 2.6 times book value and around 27 times sales, both of which are considerably higher than that of its peer Aurora. Like most other pot stocks, Canopy will be a [wild ride](#), so investor beware!

CATEGORY

1. Cannabis Stocks

TICKERS GLOBAL

1. NASDAQ:ACB (Aurora Cannabis)
2. NASDAQ:CGC (Canopy Growth)
3. TSX:ACB (Aurora Cannabis)
4. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Cannabis Stocks

Date

2025/07/02

Date Created

2020/12/28

Author

joefrenette

default watermark

default watermark