



Can Anything Deflate Cannabis Stocks Before Legalization?

Description

Cannabis stocks have roared out of the gate to kick off 2018, aided by the news that California had legalized recreational use. The Canadian cannabis market has been in a tremendous upswing since September 2017. In the late autumn, [cannabis stocks were scorching](#) and raising concerns, but the mania has not waned.

Canopy Growth Corp. ([TSX:WEED](#)) has climbed 214% over a three-month span as of close on January 3. Looking back on its progress in 2017, the company was happy to reflect on the growth of its domestic footprint. It now possesses over 5.6 million square feet of diversified growing operations in Canada. Canopy has also expanded into Denmark, Jamaica, Brazil, Chile, Australia, and Germany. The company now boasts a market cap of nearly \$7 billion while reporting second quarter revenue of \$17.6 million in fiscal 2018.

Aphria Inc. (TSX:APH) rose 6.29% on January 3. The stock has increased 199% in a three-month period. Aphria stock surged after it announced a deal to have its production sold through Shoppers Drug Mart, which is owned by **Loblaw Companies Ltd.** Currently there are over 1,300 Shoppers Drug Mart and Pharmaprix locations across Canada. The product is also expected to be sold through the Shoppers Drug Mart online store.

In an October article I'd [discussed](#) whether or not Aphria was the riskiest cannabis play because of its U.S. exposure. The TMX Group Limited review is still ongoing, and Aphria leadership has expressed confidence that it is not exposed to any risk of being delisted.

Aurora Cannabis Inc. ([TSX:ACB](#)) stock jumped 19.97% on January 3. Shares have climbed an astonishing 399% from October 3 to the aforementioned close. On January 2 Aurora announced that it sold \$3.1 million worth of cannabis in November – its highest monthly sales ever reported.

The company was also dealt some good news in the previous week. On December 27, securities regulators denied the Aurora application to reduce the minimum deposit period in its takeover bid of CanniMed Therapeutics Inc. However, regulators ruled in favour of Aurora in all other applications, including an order to cease trading the CanniMed poison pill that was designed to block the acquisition

attempt.

Can anything slow these stocks down?

A recent poll of Canadians revealed that 31% of respondents would be in favour of a delay for recreational legalization, which is set for a July 1 deadline. Some 43% of those polled were in favour of maintaining the deadline, while 23% of respondents preferred cannabis to remain illegal. However, the federal government remains confident that it will meet the July 1 deadline even amid rumoured pushback from Conservative senators.

But what about the valuations of these companies? Aurora Cannabis now boasts a market cap of over \$6.5 billion, but recorded revenue of \$8.2 million in its fiscal 2018 second quarter report. Asset prices are surging, but companies will soon be forced to show results. Citron Research, the investment newsletter that recently called **Shopify Inc.**'s valuation into question and sparked a sell-off, has stated that Aurora has no path to profitability looking ahead.

With many stocks boasting triple-digit returns over such a short period, investors should be taking profits to prepare for the inevitable cooldown that will likely occur once companies are forced to demonstrate results in this fledgling industry.

CATEGORY

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1. TSX:ACB (Aurora Cannabis)
2. TSX:WEED (Canopy Growth)

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