Should You Scoop Up Cannabis Stocks After a July Drop?

Description

Cannabis stocks have taken major hits in the month of July. Many of the top cannabis producers soared to all-time highs following the announcement that the Canadian government had finally pushed through recreational legalization. The TSX has combated volatility early this summer after gaining momentum from mid-April into June. The global sell-off in late January and early February saw cannabis stocks suffer dramatic losses, so broader weakness has been cause for concern in the past.

Is this drop an opportunity for investors to buy low? Or are cannabis stocks a dangerous play ahead of what is expected to be a relatively chaotic roll-out? Let's take a look.

Most recently, I'd covered **Aurora Cannabis Inc.** (TSX:ACB) stock and asked whether or not it was a good buy, as it slipped under the $8 mark. In my assessment Aurora remains an attractive buy, even in the midst of its difficult 2018 — the stock has dropped 23.3% as of close on July 20. Aurora is set to close its takeover of **MedReleaf Corp.** on July 25, which will push the company closer to its goal of being the world's largest cannabis producer.

Canopy Growth Corp. (TSX:WEED)(NYSE:CGC) stock fell 5.52% on July 20, and shares have plunged 26.6% over the past month. The company has made some significant moves in July, but these have failed to generate positive momentum. Canopy Growth recently launched a Latin American subsidiary in an effort to strengthen its international footprint. It also acquired a Colombian medical cannabis company and announced the acquisition of cannabis retailer Hiku Brands.

Canopy Growth stock is still in positive territory in 2018, which is something its largest competitors cannot say. Its sharp drop is largely due to the spike in its price it saw after recreational legalization was announced. Shares surged to $48.72 in late June and have since retreated. Canopy Growth is the most prepared of all producers to meet the supply challenges of recreational legalization. It has firmly established a solid revenue stream in Germany — Europe's largest market.

Aphria Inc. (TSX:APH) fell 2.8% on July 20. Shares have dropped 44.2% in 2018, making it the worst performer this year out of the three we have covered today. Aphria has also committed to a push in Latin America, as it recently announced acquisitions in Columbia, Argentina, and Jamaica. The company will acquire 100% of the common shares of LATAM Holdings with licences and other rights and assets held in Brazil and the countries listed above.

CEO Vic Neufeld was recently interviewed about its expansion into Latin America and was very confident when projecting Aphria's future earnings. "I could tell you that between LATAM," Neufeld said, "this acquisition and the end of 2019, on a conservative basis, we're probably going to generate $50 million revenue minimum, and I'm going to say 60% EBITDA, not margin; EBITDA — unheard of in this industry."

Should investors jump in on this drop?

Things may get choppy for producers ahead of and after recreational legalization in October. Broader volatility in the TSX that could emerge due to trade tensions will not help matters. However, over the long term the prices for Aurora and Aphria at this stage are very enticing. Cannabis stocks could have further to fall in 2018, but this may be an opportune time for investors to be greedy rather than fearful.

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