



## Canadian Pot Stocks Take a Big Hit As Legalization Harshes Their Buzz

### Description

I hate to say I told you so – but [I told you so](#). The flaws in the legal pot stock rush were there from the start, and seeing the sector tank (with rare exceptions) on Wednesday wasn't much of a surprise. There were notable losses in most of the bigger pot stocks, and investors are shedding their shares across the board in the smaller companies. You can be sure that a lot of "green" investors are going to feel duped when this train keeps crashing.

Will the downward turn deepen? Almost certainly. I wouldn't expect to see any more major investments like the big beverage fund injections that fueled much of the legal marijuana stock buying frenzy, at least not for some time. Meanwhile, the biggest value-determining factor now is likely to be actual sales of the no-longer-so-naughty green stuff. Let's take a look now at how a couple of the bigger legal marijuana producers are looking at the moment.

#### **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC)

Down 2.77% and falling, this \$15 billion stock (in terms of market capitalization) is today overvalued by seventeen times its future cash flow value. This is a stock I would sell today if I owned it. It's massively overpriced and that price is on its way down, so it looks like cashing-in o'clock from here.

Canopy Growth's P/E and PEG ratios are both negative, so it takes a P/B ratio of 11.3 times book to back up the value signs above. An analyst forecast of 80.8% expected annual growth in earnings over the next couple of years seems rather hopeful, but we'll find out eventually. Personally, I think the market is [hugely overestimated](#), and the power of the black market hugely underestimated, but that's just my two cents' worth.

A debt level of 50.7% of net worth wouldn't be too much of a worry generally, but it's pretty off-putting in a pot stock, especially one as overpriced as this one. Another fun fact from the data files: in the last three months, hundreds of thousands of shares were inside-sold, which does not paint a pretty picture of this unwieldy stock.

#### **Aphria** (TSX:APH)

Up 0.26% after crashing on Wednesday, Aphria is one of the top Big Marijuana stocks (to borrow the stylization of Big Pharma). With a market cap of \$5 billion, it's certainly a pot stock to be reckoned with. It's pretty overheated, though (or should we say "baked"?), with a current valuation just over four times its future cash flow value. While this looks okay next to Canopy Growth, it's important to remember that a P/E of 106.4 times earnings is *not* okay.

Other market variables like a PEG of 2.3 times growth and P/B of 3.5 times book are not as high as some other pot stocks, though should be taken into consideration alongside those previous indicators of value. A 46.3% expected annual growth in earnings over the next few years is perhaps more realistic than that of Canopy Growth, while still offering a fun time for investors who like the idea of plenty of upside. With a very low comparative debt level of 2.6% of net worth, Aphria is a much healthier stock than Canopy Growth, but still not a buy given the current volatility.

### **The bottom line**

I expect to see a lot of airtime being given to "value opportunities" in ditched pot stocks, but the fact is that even these post-boom valuations are still way too high. Legal marijuana stocks will likely fall a lot further before anything like a workable industry emerges, so if you don't own shares in the green stuff there really is no rush. On the flipside, it may be worth thinking about ditching what you have and recouping as much as possible before the outlook worsens – and it's going to.

### **CATEGORY**

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