



Will Cannabis Sales Fall Short of Expectations?

Description

Cannabis stocks have been built on expectations of future growth, and a lot has to go right for the industry to meet its optimistic outlook for sales. Up until now, cannabis companies have gotten a bit of a free ride as profitability has taken a backseat as investors have gotten caught up in the euphoria of exponential growth.

Why it might not happen

A recent survey done by Nanos Research found that 71% of Canadians had no interest in smoking marijuana, and that's a big concern. After all, for growth the industry to be as significant as many expect it to be, we would have to see many new cannabis users start smoking.

If that doesn't happen, then the growth in the industry is going to be limited, and likely not much larger than the black market, [which wasn't estimated to be all that big](#). When I visited a cannabis store, [I found much of the same results](#): the users were not new, and were likely those that would have previously purchased pot from the black market. There wasn't a big range in demographics when it came to clientele.

However, the survey results indicated that there was more of an appetite for edibles, although that segment of the industry is not expected to be legalized until sometime next year. In the meantime, companies will have to rely on conventional cannabis consumption to grow sales, and that could prove to be a struggle.

With **Canopy Growth Corp** ([TSX:WEED](#))(NYSE:CGC) and other big pot stocks being listed on the NYSE, earnings will garner more attention from investors, and with the honeymoon stage now looking to be over, a poor-performing quarter could get a lot more attention from investors than it did in the past. For that reason, sales numbers will be critical, and any hint of a miss or softening sales growth could spark a sell-off.

As much as Canopy Growth and others may be wanting to pursue growth opportunities in various parts of the world, if sales fall short of expectations in Canada, then there's no reason to think elsewhere won't be much different.

Bottom line

While we've seen pot stocks drop in value lately, they are still relatively expensive and it could be hard to justify their valuations without significant sales growth. Cannabis stocks have traded at very large multiples to sales, and we might be overdue for a big correction.

Even big tech stocks like **Amazon** that trade at big multiples don't trade at price-to-sales multiples in the hundreds, while for pot stocks this has been the norm rather than the exception.

Although Canopy Growth might be a leader in the industry, it's still trading at a hefty valuation considering it has just limited profitability. We've seen a lot of speculation in the industry, and that's likely what's been behind the price movements, but as more institutional investors get involved that could change, and short sellers could bring the values down as well.

Now might be the time to get out of pot stocks if you haven't already.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date

2025/08/14

Date Created

2018/10/28

Author

djagielski

default watermark