Canopy Growth Corp. (TSX:WEED) Gets Hit Hard As Equity Markets Dry Up

Description

Although marijuana stocks are up the time of writing, **Canopy Growth Corp**. (TSX:WEED)(NYSE:CGC) stock is down 38% since its highs this past summer.

Volatility still rules amid a market that is decidedly more risk averse than this summer, as momentum has shifted from the positive to the negative.

Given this, a logical question would be whether financing for marijuana stocks is drying up and whether it is a good buy for 2019.

I mean, if investors are thinking more of the risks when valuing stocks and are less prepared to take them on, then this high flying growth sector that is still spending big amounts of capital to pursue growth will certainly continue to take a hit.

This week the news was all about Medmen Enterprises Inc. and its disastrous equity financing.

The company raised $86 million in October, and then announced another attempted raise last week to the tune of $120 million.

But the attempted raise was quickly reduced to $75 million, and pricing was reduced to $5.50 from $6.80, as market demand was waning amid a market sell-off that we know about all too well.

So the equity markets drying up. What does that mean for top marijuana stocks like Canopy?

As of September 30, the company had $429 million in cash on its balance sheet. In latest quarter, the company used almost that much in its growth plans.

The company financed this with an equity raise and with the issuance of debt. The company's debt to total capitalization ratio is creeping up, and is now 33%.

Of course, the intention is that this investment will bring big growth and profits. But as of now, results have been disappointing.

Revenue increased a disappointing 33% in the latest quarter, and the company's net loss of $1.52 per share was significantly worse than expectations, amidst significantly higher expenses in order to fund growth plans, and a lower than expected selling price.

Digging a little deeper, we can see that operating expenses increased at a far faster pace than the revenue increase. Total operating costs rose 225% to $72 million.

The largest expense was share-based compensation, reflecting such things as shares issued in acquisition transactions as well as the exercise of options granted.

All said, this resulted in big dilution of current shareholders, as shares outstanding increased 22% to 200 million.

But other operating expenses, such as sales and marketing expense and general and administrative expense increase big as well, showing a 175% and 161% increase respectively.

Aurora Cannabis Inc. (TSX:ACB)(NYSE:ACB stock price has fallen 45% since summer highs.

Latest results showed an almost three-fold increase in revenues, and net income saw a massive increase, but the underlying marijuana business operated at a loss.

Cash on hand is $147 million, with cash used in operations of almost as much.

Aphria Inc.'s (TSX:APHA)(NYSE:APHA) latest quarter saw revenue more than double, but the stock has fallen 44% since summer highs.

EPS of $0.09 was 10% lower than last year despite net income coming in 54% higher, a reflection of a significantly higher number of shares outstanding.

Cash flow used in operations was $14 million, with equity issuance funding the company's growth plans (over $60 million this quarter) and bulking up its cash position, which stands at almost $300 million.

In short, we can see that marijuana companies have relied on the equity markets to fund their growth plans, as is typical of growth companies. With losses mounting and expenses rising rapidly, these companies continue to burn through cash balances as the availability of external financing dries up and gets more expensive.

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