Challenges Continue to Plague Marijuana Stocks Like Canopy Growth Corp. (TSX:WEED)

Description

Marijuana stocks are facing the real possibility that earnings and even revenue realizations will be pushed out into further years, coming in later than anticipated amid problems new and old.

It's an issue that is already being exacerbated by stocks that have been trading on pure optimism with no regard for the risks involved.

Canopy Growth (TSX:WEED)(NYSE:CGC) stock is down 40% from summer highs, but it's still up 34% year to date. But the stock is still trading at lofty valuations of almost 150 times expected fiscal 2020 earnings.

Aurora Cannabis (TSX:ACB)(NYSE:ACB) stock is down 46% from summer highs, but is still up 26% year to date. But Aurora stock is also still trading at lofty valuations of 50 times expected consensus 2020 earnings.

Lastly, **Aphria** (TSX:APHA)(NYSE:APHA) stock is down 48% from summer highs, but is still up 26% year to date. But Aphria stock is also still trading at lofty valuations of over 60 times earnings.

So, valuations are still very high, especially if we consider the following serious issues plaguing the industry.

Big shortages

The rampant shortages that are plaguing the marijuana industry's roll-out have been nothing short of disappointing, with some expecting that these issues will remain until 2020, leaving many consumers turning to the black market once again.

While issues with roll-out are to be expected in this type of endeavour, the issues have been far greater than feared.

And marijuana stocks were not factoring in any of this risk in their valuations, thus their sharp downfall and the big downside that still exists in marijuana stocks, in my view.

Poor visibility

So, while these supply shortages and a whole host of other unforeseen issues will continue to plague this new industry experiment, this poor visibility is not a welcome trait in an increasingly risk-averse market.

Also, the competitive landscape and pricing is highly uncertain, and where everything will settle is unclear.

Dilution is rampant

Canopy Growth saw revenue increase a disappointing 33% in the quarter, and the company's net loss of $1.52 was significantly worse than expectations amid significantly higher expenses, a lower than expected selling price, and an increase in shares outstanding.

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.

Turning to Aurora Cannabis, its shares outstanding also increased significantly, from 568 million to 961 million, bringing with it big dilution for shareholders.

Also, while net income in its latest quarter saw a big increase, the underlying business of marijuana operated at a loss.

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

So, we have seen heavy dilution in action, and with heavy spending expected to continue, profits remain at risk.

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2. NASDAQ:CGC (Canopy Growth)
3. TSX:ACB (Aurora Cannabis)
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Date
2025/07/06
Date Created
2018/11/24
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