Canopy Growth Corp. (TSX:WEED) Continues to Tank: Investors, Stay Away!

Description

One thing that I think we can all agree on is that it is extremely difficult to predict where marijuana stocks will go on a day-to-day basis.

This past week was once again a week of extreme volatility for these stocks, as the market continues to tone down its rosy, optimistic expectations relating to marijuana companies, and in general shifts toward an increasingly risk averse position.

It's time again to take stock and conduct a review of marijuana stocks and their recent and longer-term price action.

Those investors who got in at the beginning, say one or two years ago, have done exceptionally well with these stocks.

Canopy Growth Corp. (TSX:WEED)(NYSE:CGC) stock has increased more than 300% since the fall of 2017, 150% in the last year, and 35% year-to-date.

But those investors who have gotten in more recently are down big, as the stock has plummeted more than 40% from highs of this summer.

Aurora Cannabis Inc. (TSX:ACB)(NYSE:ACB) stock has increased 175% relative to 2017, but it has declined 32% versus a year ago, and declined 49% from its summer highs.

Finally, **Aphria Inc.** (TSX:APHA)(NYSE:APHA) stock has risen 38% relative to 2017, fallen 5% versus a year ago, and plummeted 50% from summer highs.

I review this to bring home the fact that these stocks have been extremely volatile and speculative, and really have had no place in a portfolio aimed at ensuring financial success and stability.

So where to from here?

Well, the realities are not as rosy as the expectations that had built up leading up to the legalization of marijuana.

Revenue growth and strong demand does not necessarily make a profitable business model. We have seen this in the results that have been posted from these companies.

Companies are operating at big losses, burning cash amid rapidly rising expenses and dilutive actions that have eaten away at shareholder value.

Cannabis is a commodity

It is but an ingredient. The real money and business models will likely be made by those companies that establish a value-added product and a value-added brand that they can command premium pricing for.

Growing a business requires capital

This is the one truth that will really continue to put a damper on profits going forward, as companies need to invest in the growth of their businesses in order to thrive.

To see these issues in practice, I think it would be useful to review Canopy Growth’s latest results.

The company’s net loss of $1.52 was significantly worse than expectations amid significantly higher expenses in order to fund growth plans, and a lower than expected selling price.

Total operating costs rose 225% to $72 million.

There also was big dilution of current shareholders, as shares outstanding increased 22% to 200 million.

These stocks continue to trade at lofty multiples, especially given the lack of visibility and downside risk to earnings estimates. I would therefore continue to stay away as they deflate.

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2. NASDAQ:CGC (Canopy Growth)
3. TSX:ACB (Aurora Cannabis)
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