What to Expect From Marijuana Stocks in 2019

Description

The year 2018 is almost at an end, and with that comes the question of what will happen this year's breakout sector: marijuana.

Marijuana stocks dominated the financial headlines this year to such an extent that it's hard to even think of a contender for second place. That's not to say that cannabis stocks have had a uniformly great run. Some, such as **Aphria Inc,** are actually down year-to-date. But the sector gave us the biggest rally of the year–short lived though it was–and received by far the most media coverage of any group of TSX stocks.

After cannabis shone so brilliantly this year, it's natural to have high hopes for the next. But are such hopes justified? It helps to start by looking at how cannabis stocks are doing now.

Unequal fortunes

One thing that's becoming abundantly clear is that the fortunes of cannabis companies are starting to diverge. This can be seen clearly enough by looking at the recent earnings of two of the industry's stars: **Aurora Cannabis Inc** (TSX:ACB)(NYSE:ACB) and **Canopy Growth Corp** (TSX:WEED)(NYSE:CGC).

Both of these companies released quarterly reports in the past two months, and the results couldn't be more different. Whereas Aurora grew top-line revenue by a frothy 223%, Canopy's revenue growth slowed to 33%.

Aurora also managed to eke out a positive net income of $100 million for the quarter. The company still lost money in operating income terms, but a huge gain in net income is impressive either way. Canopy, on the other hand, saw net and operating losses grow dramatically in Q2, with a whopping $337 million net loss.

The purpose of this is not to say "Aurora is good, Canopy is bad," but to illustrate that cannabis stocks' fortunes are beginning to diverge. In the future, we may not see them moving together in concert as much as in the past.

Operating losses likely to keep mounting

One thing we can expect from most cannabis stocks is for their operating losses to continue growing, as expenses related to general administration, marketing, acquisitions and share-based compensation are on the rise. For example, in Canopy's Q2 earnings, share-based compensation expenses grew to $45 million, from around $5 million a year before. That's a big leap, and the results were similar in other expense categories. It appears that, for whatever reason, cannabis manufacturers need to spend a lot of money to grow their sales, and I see no reason for this trend to end in 2019.

Bottom line

Ultimately, the big story of cannabis stocks in 2019 will be one of divergence. As some producers take the lead in growth, they will pull ahead in the markets as well, and increasingly, we'll see this group of stocks move less in tandem and more in accordance with individual companies' fortunes. In the end, this may signal the end of cannabis stocks as chips in a speculative bubble, and the beginning of cannabis as a normal industry.

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