



Are Marijuana Stocks Worth Betting On in 2019?

Description

Last year was quite a memorable one for those who invested in marijuana stocks. It was the year their pot stock valuations touched the roof ahead of Canada's legalization and due to the massive interest shown by top global companies in the industry.

But in the later part of the year, their [share values crashed](#) after it became clear that there was not enough commodity available to fulfill the robust demand.

Overall, the BI Global Cannabis Competitive Peers index sank 54% in 2018. It was a wildly volatile year for many pot stocks. **Tilray** ([NASDAQ:TLRY](#)), the only cannabis stock to be listed solely on a U.S. exchange, closed the year up 315% from its July initial public offering, but that number will not be impressive for investors who bought that stock when it surged 1,665% in September.

Aphria shock

While tracking these massive ups and downs of pot stocks, investors also saw a drama that reminded them that marijuana is still an industry in its infancy. With a weak regulatory environment, you can't believe what every CEO is telling you.

The latest shock to marijuana stocks came when an investigative report by a short-seller **Quintessential Capital Management** called [Aphria](#) (TSX:APHA)(NYSE:APHA) a "black hole" due to the company's questionable deal-making in Latin America.

Gabriel Grego, the founder of Quintessential, released a report in December claiming that Aphria, one of Canada's largest pot producers, was overpaid to acquire companies held by insiders in South America and the Caribbean.

In a latest twist, **Green Growth Brands** proposed a hostile bid for Aphria. The potential offer, which has yet to be finalized, raised further questions about Aphria's links to the much smaller Green Growth, with short-seller Hindenburg Research saying it's "likely an attempt to generate the appearance of demand in the hopes of spurring credible offers."

Aphria said the offer, valued at \$2.8 billion at the time, "significantly undervalues the company."

Earnings setbacks

Another risk to marijuana stocks in 2019 will come from the companies' ability to meet investor expectations when it comes to earnings. The first shock on this front came yesterday when **Aurora Cannabis** ([TSX:ACB](#)) issued a sales forecast for its second fiscal quarter, which fell below some analysts' expectations.

Aurora's weak guidance comes after a dearth in supply prompted store closings, product rationing, and a dramatic reduction of the number of stores being licensed. Alberta temporarily stopped issuing new licences, while Ontario will choose 25 retailers in a lottery this week that can open by April 1, according to a report in the *Globe and Mail*.

It's tough to be bullish on marijuana stocks in 2019 when we are seeing many risks to the companies' earnings due to supply shortages in Canada and when the overall macro environment is worsening for growth stocks. In my view, it's better to wait on the sidelines until we see some growth potential being reflected in earning numbers and macro risks reduce.

CATEGORY

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