



Why the Marijuana Industry May Be About to Sink Lower

Description

Uncertainty is punished in this market, which has shifted from being all about optimism last year to being decidedly nervous and risk-averse this year.

Given this backdrop, investors may want to consider how this will continue to affect the once high-flying [marijuana stocks](#).

Here's why marijuana stocks may be about to sink even lower.

Uncertainty is the norm

In the marijuana industry, uncertainty is the norm. By its very nature, a new industry is fraught with uncertainties. There are exciting possibilities but also uncertainties — not a good thing in a market that has turned risk-averse.

We know that the excitement around marijuana stocks has abated, as we have seen them fall back quite a bit over the last few months.

Disappointing results

Let's look at one example: **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) and its recent results highlight the fact that marijuana stocks have fallen.

Second-quarter revenue increased a disappointing 33% in the quarter, and the company's net loss of \$1.52 was significantly worse than expectations amid significantly higher expenses to fund growth plans and a lower-than-expected selling price.

By 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.

Also, there was big dilution of current shareholders, as shares outstanding increased 22% to 200

million.

This is all typical of [growth companies](#), but the point here is that investors must keep these realities in mind before bidding these stock prices up so much that they become highly valued in a way that ignores these risks and realities.

Growth requires capital, and lots of it.

Valuations still high

Canopy is currently trading at \$52.41, which is 39% higher than one year ago and 22% lower than 2018 highs.

This year, Canopy is expected to report a big loss to be followed by a small profit in 2020.

So, looking at the company in terms of P/E multiples, we can get the sense that this is an irrelevant metric for Canopy, which is sitting at over 500 times based on the next two years' estimates.

But eventually, the market will start to value the company based on traditional metrics, so we would be well advised to exercise caution at this time.

Final thoughts

Marijuana stocks will likely remain volatile, and although valuations are lower, they are still high, so caution is warranted.

For investors that would like to invest in the space, market-leading Canopy is certainly the one to watch, as deals and partnerships continue to legitimize this industry and this marijuana stock.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

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