



4 Possible Scenarios for Cannabis Stocks in 2019

Description

In 2018, pot stocks were everywhere. The lead-up to legalization was one of the most hotly anticipated events of the year, so it was natural that coverage would be off the charts. But ironically, the week pot actually became legal, marijuana stocks started falling owing to [supply shortages](#) and sold-out stores. After that, many commentators came out swinging against the sector — including none other than Andrew Left, who gave a scathing interview where he criticized **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) and **Tilray**.

But last week, Canopy started rising again, accumulating a 33% gain by Friday. The rally continued early this week, stoking speculation that perhaps cannabis wasn't DOA after all. The reasons for last week's Canopy rally aren't entirely clear but may have something to do with upcoming earnings. If that's the case, then the future for cannabis stocks may rest on how earnings play out in 2019.

There are four basic scenarios that could play out.

Scenario #1: revenue beats expectations but earnings miss

A very likely scenario for cannabis stocks in 2019 is that they report high revenue growth but negative earnings. This has been a consistent theme for pot stocks, which are growing like lightning but face spiraling costs. In Q2, Canopy lost a [whopping \\$330 million](#) thanks to rising expenses, which included a nearly nine-fold increase in share-based compensation costs. If this trend continues, coupled with a revenue boost from legalization, then revenue could easily exceed expectations while earnings miss.

Scenario #2: revenue and earnings beat expectations

This is the most fortuitous situation for cannabis stocks and has been seen before. In Q3 2018, **CannTrust Holdings** (TSX:TRST) posted 105% revenue growth along with positive EBITDA and net income. Should this situation play out, then cannabis stocks should see a long, sustained rally.

Scenario #3: revenue and earnings miss

This is the “disaster scenario” where revenue misses and earnings also miss. We’ve seen this before: in Q2, Canopy’s growth slowed to 33%, while net losses ballooned. And it could happen again. The big question is whether the revenue boost from last quarter’s legalization will be enough to offset mounting costs. Early results from **Aphria** don’t look encouraging, but other pot stocks may have played their hands better. At any rate, Canopy’s earnings are out in February, so it won’t be long until we see the results.

Scenario #4: legalization in foreign markets

A final scenario — the only one on this list that isn’t immediately related to upcoming earnings — is the possibility of legalization in a major foreign market. This is more likely than it may look at first glance; moves toward legalization have already happened in Colorado and California, and many more U.S. states are considering it.

Should this scenario play out, we could see a renewed hype factor similar to what happened in the months leading up to domestic legalization, which could send cannabis stocks higher. However, rallies driven by major news events tend to be short-lived and can be followed by selloffs shortly after — as happened on legalization week last October.

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