



## 2 Marijuana Stocks I'd Avoid at All Costs

### Description

The cannabis industry is one big melodrama so far. Each industry player has an investment pitch, although every plot seems to be sensationalized, if not over exaggerated. **Cronos Group** ([TSX:CRON](#))([NASDAQ:CRON](#)) and **Aphria** (TSX:APHA)(NYSE:APHA) are both trying to find their places in the space.

These two cannabis producers desire to outperform the bigger ringleaders and picture themselves as frontrunners, if not leaders, too. But the inconsistent performance of Cronos and Aphria contradict their respective claims to fame. But which one has better chances?

### Cronos's tale

Cronos has been on the receiving end of adverse publicity lately. In early March, the stock soared to \$23 that lifted the spirits of shareholders. Thereafter, the movement was listless. The price drops then recover and another round of up and down cycle follow. This week, CRON jumped 7.04%, but a fall is once again imminent.

One thing noticeable about Cronos is its resiliency. Despite the negative or underperforming ratings by some investment analysts, the stock manages to rise and encounter the bad press. However, the next drop might snap that resiliency and leave CRON with no room to recover.

Cronos bring uneasiness, not excitement to stock owners. Sadly, the company didn't make a good account during the last quarterly reports. The earnings report presented was the worst among all known marijuana companies. Market observers point to the weakness in the business model.

Many expected Cronos to report huge sales from recreational marijuana. Instead, the company's reliance on medicinal marijuana as a revenue source sticks like a sore thumb. The diminishing gross margin is also hurting Cronos now that it has dropped further by eight points to 45%. If it won't rise any time soon, [Cronos is in a bind](#).

## Aphria's drama

Aphria's case is no different from Cronos. The stock is also reeling from a wave of discontent following a disappointing quarterly earnings report. Just like CRON, APHA soared in early March. The stock touched \$10.42 before blowing hot and cold. Its price ended last week at a low of \$7.65 and advanced 2.74% on Monday.

Being the third-largest cannabis company in Canada, Aphria was seen by many to disrupt the markets and make big waves. Rather, things went south. The company suffered on the operations side. The decision to temper sales to ignite future growth caused recreational marijuana sales to drop to only \$7.2 million.

The 2% drop in medical marijuana sales compounded [Aphria's woes](#). Investors are looking for results and are no longer interested in drama.

## Profit margin is the key

Apart from the distressing margins and the need to enhance production capacities to keep up with the industry giants, Cronos and Aphria will have to deal with falling marijuana prices in the near future.

When cannabis companies start hitting their annual peak capacities, only those implementing lost-cost production techniques or methods will see a rise in profit margins. Cronos and Aphria can't absorb the losses forever.

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### Date

2025/08/03

### Date Created

2019/04/27

### Author

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