



2 Oversold Pot Stocks to Buy in May

Description

In mid-April I asked whether the [dreaded bear](#) would ravage the cannabis sector this spring. Cannabis stocks started very well in 2019 buoying one of the best starts for the broader **TSX** in decades. The sector has lost momentum over the past month. For example, **Horizons Marijuana Life Sciences ETF** ([TSX:HMMJ](#)) has dropped 6.6% month-over-month as of close on May 9. It is still up 39% for the year.

Cannabis sales have sputtered to start the year. Analysts noted a decline in sales from December 2018 to January 2019. There is optimism surrounding the ramp up of production, but now concerns are swirling over where this production will go.

Today we are going to look at two cannabis stocks that have dipped into oversold territory over the past week. For all its growing pains, the cannabis sector still boasts exciting growth prospects. Investors chasing big returns should consider adding some of the larger producers on the cheap this spring.

Aphria (TSX:APHA)(NYSE:APHA)

Aphria is one of the six largest cannabis companies listed in Canada in terms of market capitalization. It has been one of the top producers in terms of revenue generated up until now. However, the company has faced significant hurdles over the past six months.

Shares of Aphria had dropped 29.2% month-over-month as of close on May 9. The stock is still up 16% in 2019 so far. Aphria stock plummeted following the [release of its fiscal 2019 third-quarter](#) results in late April. The company saw revenue soar 617% year-over-year to \$73.6 million, but it reported a net loss of \$108.2 million. Earnings were dragged down by a whopping \$50-million non-cash impairment on its Latin American assets.

Aphria blamed the rest of the decline on “temporary packaging and distribution challenges.” It forecasts that production and sales will get back on track in Q4 and beyond.

Similar to its peers, Aphria’s boasts a sky-high valuation. Shares had an RSI of 30 as of close on May

9, which puts the stock on the fringe of technically oversold territory. Aphria is a speculative buy in May as pressure is mounting on new leadership.

CannTrust (TSX:TRST)(NYSE:CTST)

CannTrust is one of the top-10 cannabis companies in Canada by market cap, and shares have dropped 23.2% over the past month. The stock was still up 14.9% in 2019 as of close on May 9.

The company released its fourth-quarter and full-year results for 2018 on March 28. CannTrust posted record revenue of \$16.2 million in the quarter which was up 132% from the prior year. It sold 3,407 kilograms of dried cannabis compared to 758 kilograms in Q4 2017, and cash costs per gram fell to \$2.94 over \$5.64.

Like Aphria, CannTrust also reported a net loss of \$25.5 million after a big bump in revenue. It reported \$6.3 million in profit in Q4 2017. However, CannTrust's revenue missed estimates which exacerbated its larger-than-expected net loss. Operating expenses ballooned in the fourth quarter due to marketing costs, new hires, and costs related to its NYSE listing.

CannTrust expects results to improve as it ramps up production. The completion of its Phase 2 expansion for its facility in Pelham, Ontario is expected to boost capacity to 50,000 kilograms on an annual basis. The company received Health Canada approval for the expansion in early April.

Shares of CannTrust also had an RSI of 30 as of close on May 9. The stock looks discounted right now, but cannabis stocks will require more patient investors going forward. The fledgling industry is going through major adjustments and producers big and small will battle growing pains as we look ahead to the next decade.

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1. Cannabis Stocks
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1. Cannabis Stocks

TICKERS GLOBAL

1. TSX:HMMJ (Horizons Marijuana Life Sciences Index ETF)

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