3 TSX Marijuana Stocks That Could Be Very Profitable by 2020

Description

The past month has not been a great time for weed stocks. Following four months of solid gains, the sector as a whole shed about 11% of its value, following disappointing quarterly reports from several major growers.

For years, marijuana stocks have been growing earnings at a frightening pace, while also running massive net and operating losses. Now, however, some of the top companies in the industry have been trimming their expenses, resulting in an increasingly positive profit picture. The following are three such stocks that, if everything goes right, could be very profitable by the end of 2020.

Canopy Growth

Canopy Growth (TSX:WEED)(NYSE:CGC) is Canada's largest weed stock by revenue and market cap. The company was one of the slowest marijuana producers to post significant positive net income, but in Q3 it finally hit the coveted milestone, posting $75 million in profit. Not only did Canopy become net profitable in Q3, but it also decreased its loss from operations: the company's Q3 operating loss was $150 million, down from $200 million in Q2. This shows that Canopy can produce positive net income and trim its operating losses.

If these trends persist, Canopy may be solidly profitable in 2020.

Aurora Cannabis

Aurora Cannabis (TSX:ACB)(NYSE:ACB) has been on the receiving end of some bad press lately, owing to a recent quarterly report that missed analyst estimates. However, this earnings miss was not necessarily a complete disaster: revenue grew 365% year over year, recreational sales grew 37% over the previous quarter, and the net loss was down 33% from the previous quarter. The company also reduced its cost per gram and did not significantly increase its operating loss.

Assuming the company can keep expenses under control, it may become a mega-profitable machine.

CannTrust Holdings

CannTrust Holdings (TSX:TRST)(NYSE:CTST) was one of the first marijuana producers to achieve both net and operating profits. In 2016, it posted $9.2 million in operating income and $6.8 million in net income, well before any of the “big-name” weed stocks achieved the same milestone.

In more recent quarters, the trend has reversed. Driven by a desire to gain more market share, CannTrust began investing significant sums of money in expansion, and as a result now posts income statements that look more like those of Canopy or Aurora. However, as this company’s history shows, it can open the floodgates of profits any time it likes by trimming its costs; should its current expansion efforts pay off, the company will enjoy both profits and growth

Foolish takeaway

Until recently, marijuana stocks were big on revenue growth but slow to turn a profit. More recently, however, that’s been changing. As Canopy’s latest quarterly report showed, it’s entirely possible for weed producers to grow profits on top of revenue, and deliver value to shareholders. Should last quarter’s results be the start of a trend, then we may see consistent profitability from not only Canopy but many of its peers as well.

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Date
2025/08/27
Date Created
2019/06/05
Author
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