Cannabis Stocks Like Canopy Growth (TSX:WEED) Continue to Slide

Description

Yesterday we saw something of a recovery in the markets even as they continue their volatile ride. In fact, the **S&P/TSX Composite Index** (TSX:^OSPTX) is up strong year to date, with a more than 12% return, thereby offsetting most of the weakness we saw in late 2018.

But we are clearly seeing the market roll off its 2019 highs, as trade issues, global economic growth concerns, and general market sentiment seems to be slowly turning. It seems the one thing we can count on is volatility.

Yesterday's laggards included cannabis stocks.

Are investors growing more risk averse and thus letting go of these high flying — albeit exciting — high-growth stocks that have seen explosive returns?

Canopy Growth Corp. (TSX:WEED)(NYSE:CGC) is one of the leaders in the cannabis industry, with strong reach and partnerships and a certain first mover advantage in many of its markets. Canopy Growth stock has plunged 24% since the end of April in only one short month.

Canopy will be reporting its quarterly results on June 19. Emerging from a quarter that saw earnings come in significantly below expectations ($0.38 loss per share versus consensus expectation for a loss of $0.16 per share), investors have reason to be concerned.

The company's very aggressive growth strategy that's aimed at capturing a big chunk of global cannabis sales is an impressive and necessary step, but of course, this comes at a cost. Increased spending is falling to the bottom line, reducing earnings and cash flow numbers, as well as increasing shares outstanding, thereby diluting shareholders.

Aurora Cannabis Inc. (TSX:ACB)(NYSE:ACB) stock is also seeing weakness after a strong start to the year. Since the end of April, Aurora Cannabis stock has plunged 25%, as it too suffers from a lower risk tolerance of the market in general, and perhaps the start of a renewed focus on the bottom line from cannabis companies.

Aurora’s latest quarter brought in lower-than-expected revenues, a net loss of $0.16 per share, also worse than expected, and a consequent ongoing reduction in earnings estimates going forward. All of this does not bode well in terms of justification of where Aurora Cannabis stock trades at these days, even after the recent stock price decline.

Significant production capacity over at Aurora has caused much bullishness over the stock, but without a partner at its side and the resulting cash infusions, Aurora is taking a big risk.

Final thoughts

Cannabis stocks continue to price in very optimistic revenue and sales expectations. These expectations are generally not being met, and future estimates are being ratcheted down. This is a recipe for disaster.

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