



The Marijuana Hype Is Over: What Companies Are Left Standing?

Description

The marijuana hype is over, and previously upbeat investors feel utterly disenchanted. There was never a month post-legalization of adult-use marijuana that the sector was not challenged. All major players piled up losses. Fortunately, no cannabis company has raised the flag of surrender or declared bankruptcy.

I'm not pertaining to the industry giants but the [second-liners](#) whose market capitalization are below \$7 billion. **Aphria** (TSX:APHA)(NYSE:APHA), **HEXO** ([TSX:HEXO](#)), and **CannTrust Holdings** (TSX:TRST)(NYSE:CTST) are still standing but are absorbing losses just like the larger peers.

Hard-luck Aphria

Aphria is miraculously afloat at June's end with the stock up 17.3% year to date. The \$2.3 billion cannabis producer has survived short-seller allegations, a hostile takeover bid, and the resignation of a senior executive. The company also avoided being de-listed from the stock market.

Surprisingly, Aphria can continue operating in the cannabis space. The company sealed supply agreements with all 10 provinces in Canada. Once the production capacity of 250,000 kilograms is achieved, Aphria can have a [bigger slice](#) of the domestic market.

However, the last two quarters will be extremely challenging. The legalization of concentrates and edibles still hangs in the balance. What could turn the tide are potential bidders or a huge investor. But for as long as production is weak and logistical problems persist, profitability will suffer.

High flyer no more

HEXO is performing better than Aphria, as the stock is up 48.4% as of June 28, 2019. Sadly, the stock is no longer a high flyer. The price peaked to \$11.11 in late May and has gone down to its current price of \$6.99. As usual, the drop was due to disappointing third-quarter results.

The company can maintain market leadership in the adult-use recreational marijuana market in Quebec because of the long-term supply agreement signed in 2018. But production capacity needs to increase before sales can grow. The acquisition of Newstrike Brands will soon increase annual production capacity to 150,000 kilograms.

HEXO is also looking forward to the launching of cannabis edibles and other derivative products. The joint venture with **Molson Coors Brewing** ([NYSE:TAP](#)) was formed primarily to serve this market segment, which will include cannabis-infused beverages, gummies, and vapes. Everything is underway, so it remains a waiting game.

Production dilemma

CannTrust's total revenue more than doubled in 2018, and so did the losses. The current stock price of \$6.56 is the same price when the year started. Nothing has changed. I'm surprised that analysts are projecting the stock to touch \$11 moving forward.

The main dilemma is increasing production capacity. In the third quarter, the company expects a run rate of 50,000 kilograms. With the hydroponic and other production facilities, the target of 200,000 kilograms is achievable. Again, the timetable is 2020.

CannTrust is expecting quarterly operating profits by year-end. That is too good to be true, as no weed stock has rewarded investors with profits. All three have been ultra-volatile. The companies are still standing, but I'm already insensitive to cannabis news. I want to see strong fundamentals before I invest.

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