



Has the Pot Stock Bubble Finally Burst?

Description

Is the marijuana stock bubble about to burst or has it just done so?

A series of unfortunate events has bruised the image of the cannabis industry. There is too much drama coming from the perceived industry leader **Canopy Growth** down to the second-tier cannabis companies — and [stock prices](#) for weed have fallen sharply.

You can feel the dismay of investors. It wouldn't surprise me if many of them regretted buying **CannTrust** (TSX:TRST)(NYSE:CTST), **Cronos** ([TSX:CRON](#))([NASDAQ:CRON](#)), and **Hexo** ([TSX:HEXO](#))(NYSE:HEXO).

These cannabis companies are no longer on cloud nine.

The big scandal

CannTrust is in [limbo](#) after messing up big time. Health Canada discovered that the company sold cannabis produced from unlicensed cultivation rooms.

Now, Canadian securities regulators are conducting a deeper probe, and its inspectors might well unearth more serious violations and unsound practices.

A class action suit was filed against CannTrust by those who bought the stocks between November 14, 2018 and July 5, 2019. The complaint alleges that CannTrust issued false and misleading statements to investors. The suit also mentions that CannTrust was growing cannabis without regulatory approval.

In a recent statement, CannTrust said the company would likely miss the August 14 deadline to file its earnings report. That's troubling for investors, as it's only from the filing that they will know the company's real status.

The outlook is bleak for future revenue and profitability. Furthermore, unless a serious buyer comes along, CannTrust is in danger of having its license revoked.

The overvaluation

With Cronos being cash-rich thanks to a \$1.8 billion equity investment from tobacco giant **Altria**, it's in a massive expansion mode. Last week, Cronos acquired Redwood, the owner of the popular brand Lord Jones. This brand is known for its hemp-derived CBD-infused skin care and other consumer products.

Redwood will receive \$225 million in cash from Cronos and \$75 million in newly issued stocks. The transaction has a minimal dilution of Cronos shareholders, and the company gains instant entry to the U.S. CBD market.

Cronos can scale in the CBD skin care market, which is predicted to be worth more than \$6.3 billion by 2027. However, market analysts believe that Cronos is grossly overvalued and trading at a premium.

That's the major problem with the stock. This negative sentiment could change, however, depending on Cronos' Q2 2019 earnings report.

Disappointing revenue

Hexo ([TSX:HEXO](#))(NYSE:HEXO) is also in a predicament. There was some initial excitement when the joint venture with **Molson Coors** was announced. Still, some had their doubts about the acquisition of Newstrike Brands despite its potential for Hexo.

Through the partnership, the company expected to realize its vision of creating the best cannabis technology.

Investors' interest soured, however, when Hexo's third-quarter financial results showed only a pint-sized growth in revenue. While production doubled, the sales of recreational marijuana increased by only 8.75%, and medical sales dropped.

Overall, Hexo posted revenues of \$13 million with a corresponding \$1.9 million loss.

Since then, Hexo has underperformed after flying high earlier in the year. Hexo is presently holding talks with Fortune 500 companies. If the company can add a new partner by next year, things could change for the better. Until then, it's wait-and-see for investors.

Final thoughts

Although the marijuana industry has seen many success stories, maybe the marijuana stock bubble has finally burst. Wait until stock prices hit the bottom before you invest in any of these companies.

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