



## How to Invest Without Getting Burned: A Tale of 2 Cannabis Earnings

### Description

Cannabis earnings shook up the **Toronto Stock Exchange** (TSX) on Wednesday with three cannabis stocks announcing earnings for the quarter ended June 2019. **Neptune Wellness** ([TSX:NEPT](#))(NASDAQ:NEPT) and **The Green Organic Dutchman** (TSX:TGOD) released Q2 2019 earnings before market open.

Investors reacted strongly to both Neptune and The Dutchman earnings, and they were not happy. Neither cannabis stocks succeeded in [turning a profit](#) last quarter despite marijuana's recent legalization. Neptune and The Dutchman opened down nearly 4% and 14%, respectively.

Although The Dutchman outperformed Neptune in revenue, investors reacted more strongly in the big selloff that followed earnings.

Between the two Neptune's decline in revenue growth foreshadows bigger problems than those at The Dutchman. Still, neither stock may be a good fit for your portfolio. Here's what you need to consider to avoid getting burned in the stock market.

### Neptune Wellness revenue falls, production capacity rises

Neptune Wellness has failed to impress investors after reporting a net loss of \$6.5 million. The stock fell nearly 4% to \$6.20 on market open.

In the earnings call, the company turned analyst focus away from the bad earnings and onto Neptune's recent projects to enhance production capacity.

By the end of the year, Neptune's CBD production capacity will be seven times its current size. Once the company completes its production expansion projects, Neptune's revenue potential will sit at \$450 million.

Michael Cammarata, Neptune's new CEO after Jim Hamilton stepped down in July, expects revenue to soar to 20 times current levels.

Founded in 1998, Neptune Wellness began purifying cannabis extracts for therapeutic use at the start of Canadian medical marijuana legalization.

The company also develops pet and human supplements, including lipid-based and seed oils. Last year, Neptune Wellness impressive levered free cash flows of negative \$3.41 million, higher than the cannabis industry average of negative \$186.63 million.

## Dutchman revenues rise mildly

The Organic Dutchman is an international medical and adult-use cannabis enterprise operating in Canada, Europe, the Caribbean, and Latin America.

Specializing in organic cannabis wellness products such as hemp CBD oil, the company cultivates and processes its marijuana in Jamaica, Denmark, and Canada.

In the earnings call, The Dutchman announced a 20% increase in revenue to \$2.9 million, a sign that the company benefitted from cannabis legalization.

Nonetheless, a 20% revenue increase is nothing compared to the tremendous growth at **Canopy** ([TSX:WEED](#))(NYSE:CGC), **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB), and **Cronos** ([TSX:CRON](#))([NASDAQ:CRON](#)).

## Foolish takeaway

Although Neptune failed to be one of the top cannabis companies this quarter, by the second half of fiscal 2020, the marijuana dealer should be in the green.

Neptune's stock price has performed remarkably well this year – soaring in value by over 70%. However, investors should take caution in buying shares in a cannabis stock at \$6.00 per share unless it reports a revenue boost for Q2 2019.

Unfortunately, Neptune seems to be soaking up merely residual cannabis demand, a sign that the brand itself fails to excite consumers.

While The Dutchman also reported a net loss of \$16.6 million for the quarter, the 20% growth in revenue demonstrates its ability to compete in on non-competitive terms. As Health Canada and other international regulatory bodies issue more licenses, the competition will increase.

Thus, if a cannabis company struggles to [compete for sales](#) revenue today – it is a sign that the company won't be able to hack it when the real competition begins. Neptune, with falling revenue, is one of those companies which may not survive the reduction in competitive barriers.

## CATEGORY

1. Cannabis Stocks
2. Investing
3. Top TSX Stocks

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1. NASDAQ:ACB (Aurora Cannabis)
2. NASDAQ:CGC (Canopy Growth)
3. NASDAQ:CRON (Cronos Group)
4. OTC:NEPT.F (Neptune Wellness Solutions)
5. TSX:ACB (Aurora Cannabis)
6. TSX:CRON (Cronos Group)
7. TSX:NEPT (Neptune Wellness Solutions)
8. TSX:WEED (Canopy Growth)

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