2 Canadian Marijuana Stocks to Avoid

Description

Things just keep getting uglier for cannabis stocks. Following a brief uplift, **CannTrust Holdings** (TSX:TRST)(NYSE:CTST) resumed its tumble on news that Health Canada had found even more unlicensed grow sites. CannTrust shares have fallen about 56% since the scandal began, while other marijuana stocks are being hit hard as well, whether due to regulatory concerns or growing losses.

In the midst of this environment, there are some glimmers of hope. **Aphria**, for example, recently delivered a quarterly report that showed positive net and operating profits. However, for many more marijuana stocks, the situation is looking grim. The following are two Canadian weed stocks that are in particularly tough spots right now.

Canopy Growth

Canopy Growth (TSX:WEED)(NYSE:CGC) has been absolutely tanking over the past few weeks, falling 17% since August 8. The highly pronounced recent losses follow months of milder losses: since March, the stock has fallen a whopping 44%.

One of the main reasons for Canopy's tanking share price is the fact that it continues to lose money. In its most recent quarter, the company lost $1.28 billion, more than 13 times revenue for the quarter. Granted, most of this loss was from extinguished warrants: the operating loss was "just" $109 million. However, that $109 million operating loss is still way higher than the company's reported revenue, which suggests that the company is having a hard time controlling expenses.

In more positive news, Canopy's operating losses have been getting smaller; in the two quarters prior to the most recent one, they were $160 million and $150 million. These shrinking operating losses don't seem to be convincing investors that profits are coming, however, as media coverage of Canopy's recent earnings was overwhelmingly negative.

CannTrust

CannTrust has become the black sheep of the cannabis family, following a Health Canada regulatory scandal that damaged the company's reputation.

To summarize the situation briefly:

A tipster alerted the regulatory body to the fact that the company had been growing marijuana in unlicensed rooms. After CannTrust conceded the report, Health Canada put a hold on 5,000 kg of the company's product — meaning it can't be sold. CannTrust then put a voluntary hold on another 7,500 kg of its own cannabis, dramatically limiting its ability to move product.

But that wasn't the end of the story, as Health Canada said it had found even more unlicensed growing at CannTrust facilities. Now, the Ontario Cannabis Store is sending product back to the company, so even product that the company had previously sold isn't moving.

There's no telling where the CannTrust scandal will end. In the best-case scenario, the company misses out on most of its would-be revenue for this quarter and gets back to business as usual in the next one. In the worst-case scenario, the scandal turns into a wave of regulatory scrutiny affecting other marijuana companies and driving the industry to a standstill. Nobody knows for sure where it will end, but for now, CannTrust is one to avoid.

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Date
2025/08/25
Date Created
2019/08/21
Author
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