Why a Bloodbath in Top Marijuana Stocks Is a Buying Opportunity

Description

Investors aren't buying the growth story of cannabis stocks anymore. They are getting impatient and want to see a clear path to profitability *now.*

The reflection of this thinking can be seen in the stock prices of top marijuana producers that are plunging — and not showing any sign of bottoming out.

Canopy Growth Corp. (TSX:WEED)(NYSE:CGC) and **Tilray Inc.** (NASDAQ:TLRY) are the two big victims of this bloodbath in marijuana stocks, as these companies have yet to show a clear path to profitability.

Canopy Growth shares have continued their downward spiral after the pot producer reported revenue that missed the lowest analyst estimate for its latest quarterly earnings.

In the past three months, its shares are down more than 40% amid worries about the company's ability to maintain its top position in the Canadian marijuana space.

Tilray has faced a similar fate, as it reported a wider-than-expected EBITDA loss last week. Trading at $30 a share at writing, its stock has lost about one-third of its value since August 14, when it reported the earnings.

Although revenue of US$45.9 million was more than the consensus estimate of $40.3 million, investors still punished the stock, as they focused on the $17.9 million loss before interest, taxes, depreciation and amortization.

Tilray said the higher loss was due to rising operating costs related to growth initiatives, interest expense from its convertible notes, recent acquisitions and the expansion of its international operations.

Rush to sell risky assets

If you dig a little deeper and focus on the numbers beyond top-line profitability, it's not hard to see that these producers are doing just fine and that the sell-off in top marijuana stocks is the result of a rush to shun risky assets globally.

For example, Canopy's ability to serve the broader cannabis market is still intact despite worries about its short-term revenue potential. It's having a large harvest, while its inventory level is growing, strengthening its competitive position as Canada allows new products such as edibles and vaping pipes later this year.

Tilray, on the other hand, reported strong recreational pot sales, which the producer doubled quarter over quarter. At the same time, the company's gross margin of 27% wasn't that bad. The company is forecasting to expand this margin to the mid-40% range by the end of 2020.

Regarding future growth, Tilray also remains a solid name to own, especially due to its relationships with Swiss drug giant **Novartis AG**, Budweiser brewer **Anheuser-Busch InBev NV** and its acquisition of hemp food company **Manitoba Harvest**. All of these deals position Tilray to compete on a global scale.

While trying to instill some life in the stock and fight the extreme negativity, Tilray Chief Executive Officer Brendan Kennedy said in a Bloomberg TV interview yesterday that the producer will be profitable in Canada in the "next quarter or two" and in Europe in the next two to three quarters.

"We'll continue to invest in new regions and new countries, but on an existing basis in terms of our existing footprint, we see profitability within the next half year to year."

Bottom line

Looking at the analysts average consensus price target for both Canopy and Tilray for the next 12 months, it seems there is a huge disparity between what analysts think about the future prospects of these companies and how the market is treating these stocks.

Canopy's share price is forecast to hit $57 a share, while Tilray is expected to reach $64 a share. In my view, the current weakness offers a good opportunity for long-term investors to take a position in these marijuana stocks.

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