



The Real Reason Pot Stocks Have Plunged

Description

If the scandals and controversies in the marijuana industry aren't enough, the shares of the two largest cannabis companies are plummeting. If the downtrend continues, will the entire industry collapse?

In the last two months, **Canopy** ([TSX:WEED](#))(NYSE:CGC) has fallen by 38%. **Aurora** ([TSX:ACB](#))(NYSE:ACB) has dropped by 24%. The industry giants are losing steam, while investors' interest is clearly fading.

Ruptured image

Canopy was supposed to be the [prime weed stock](#) following the partnership with American beverage giant **Constellation Brands**. But things got ugly in July. Bruce Linton, the company's co-founder, was kicked out. The principal investor didn't like the mounting losses and excessive spending by the long-time CEO.

The fiscal first-quarter 2020 results for the period ended June 30, 2019, presented in mid-August, revealed the truth. Canopy lost \$1.28 billion coming from a \$91 million loss in fiscal Q1 2019. And the backlash is continuing for the headless cannabis company.

Canopy is in a bind. The sizable loss brought down the company's market capitalization, which stands at \$11.5 billion to date. If the pace of expenditures doesn't slow down, Canopy's treasure chest might dry out sooner rather than later. The M&A activities accounted for 59% of the enormous losses.

Rumours are circulating that Bruce Linton is buying shares of Canopy or recommending a buy rating. Whether there's truth to it or not, Canopy projects revenue to rise by 185.5% to 646.3 million in fiscal 2020 and by 87.1% to \$1.21 billion in fiscal 2021.

The company's expected net loss in fiscal 2020 is \$1.38 billion in fiscal 2020 but is projected to drop to \$310.7 million in fiscal 2021. For WEED, invest at your own risk.

Far from profitability

Aurora is in a precarious situation as well. The acknowledged leader in cannabis production is still too distant to be profitable. This \$7.63 billion marijuana company reported a net loss of \$158.4 million in the quarter ending March 31, 2019.

During the most recent conference call, Cam Battley, Aurora's chief corporate officer, was quick to say that the company is on a "pathway to profitability." But more likely, Aurora will realize substantial profits no sooner than its fiscal 2021 or by June 30, 2021.

The question now is whether Aurora needs a moneyed institutional partner moving forward. Strategic advisor Nelson Peltz warns against yielding majority ownership to a prominent investor. Aurora is not keen on working out a deal with any, at least not yet.

The latest development for Aurora is the push into the hemp market. The company confirmed completing its acquisition of all outstanding shares of Hempco Food and Fiber. The transaction is worth \$63.4 million.

Risky investments

Investors in the cannabis space are exhausted. They're having difficulty evaluating weed stocks.

Constellation Brands might decide to take a super-majority stake in Canopy Growth as it continues the search for a new leader.

Meanwhile, Aurora Cannabis is not selling out, nor it is ready to jump into edible marijuana and cannabis-infused beverages. But with the way things are going, weed stocks are [risky investments](#).

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2. NASDAQ:CGC (Canopy Growth)
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