TFSA Investors: Should You Own Marijuana Stocks?

Description

Marijuana stocks have been a hot news item over the past two years. Between legalization, global expansion and massive M&A deals, there's been a lot to keep up with.

In the lead-up to legalization, weed stocks went on a massive bull run, with stocks like **Tilray Inc** (NASDAQ:TLRY) rising nearly 1000% in just a few months.

Since then, the marijuana sector has fallen a peg, with one massive sell-off post-legalization and another in the second half of this year.

Still, most of Canada's large-cap weed stocks are up from their IPO prices and growing revenue by hundreds of percentage points year over year. This raises the question of whether we've really heard the last from Canada's nascent weed industry or if there's more still to come.

It's a question that many TFSA investors are asking themselves, as the prospect of red-hot returns in a tax-free account is hard to pass up.

If you're a TFSA investor wondering whether marijuana stocks are right for you, the following are three considerations to keep in mind.

Growth

The single biggest thing marijuana stocks have going for them is growth. Growing revenue by *hundreds* of percentage points year over year, they're expanding more rapidly than many recently IPO'd tech start-ups.

One of the best examples of a fast-growing marijuana stock is **Aphria Inc** (TSX:APHA)(NYSE:APHA). In its most recent quarter, the company posted revenue of $128 million, an increase of 969% year over year. The company also increased its adult use sales by 158% over the prior quarter while reducing its cost per gram of cannabis sold by about 10%.

This kind of growth is practically unheard of in most industries, but among weed stocks, it's not unusual. In its most recent quarter, Tilray grew its revenue by 371% year over year, and the most recent figures from **Canopy** and **Aurora** were in the same range.

This kind of growth could easily justify the stratospheric valuations at which weed stocks trade. However, there's another big consideration that must be factored in.

Profitability

The elephant in the room when it comes to weed stocks is profits — or rather the lack of profits. Although early stage start-ups are normally unprofitable, many weed companies are posting losses that are growing bigger and bigger each year.

To return to Tilray, its net loss in Q2 was $36 million, nearly triple its loss in the same quarter a year before. Weed companies are ostensibly running these huge losses to power future growth, but with executive compensation making up a larger and larger percentage of expenses, it's not clear that all this spending is motivated by shareholder interests.

Valuation

Marijuana stocks' profitability issues become even more dire when we look at their valuations. Most weed stocks trade at extraordinarily high price-to-sales ratios, with Tilray's coming in at a whopping 28.73. That means that it would take about 29 years' worth of revenue to equal the price the company trades for in the markets.

You need extraordinary growth to justify valuations like that–and granted, marijuana stocks are growing revenue like wildfire.

However, it's not clear that this growth will continue once legalization passes further into the rear view mirror. When you combine that factor with the aforementioned lack of profits, it becomes hard to justify holding weed stocks in a TFSA.

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. Cannabis

TICKERS GLOBAL

1. NASDAQ:TLRY (Tilray)

PARTNER-FEEDS

1. Business Insider

2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Cannabis Stocks
2. Investing

Tags

1. Cannabis

Date
2025/07/04
Date Created
2019/09/03
Author
andrewbutton