



Are Cannabis Stocks Such As Canopy Growth Corp (TSX:WEED) Due for a Bounce?

Description

It hasn't been a pleasant few months for pot stocks. Mired in a steady downtrend, the **Canadian Marijuana Index** is down approximately 46% over the past six months. Over the past year, its value has more than halved (-54%) and investors have been left white-knuckled.

The downtrend began this past March and accelerated in July. For those who follow the sector, you'll know that this is when **CannTrust** (TSX:TRST)(NYSE:CTST) was accused of illegal growing operations.

This hit the sector hard, as CannTrust was considered one of the best companies in the sector. Its value has since tanked and the company has lost almost 70% of its value since the news broke.

The expectation is that Health Canada will make an example of CannTrust and strip it of its licence to grow. As such, the vultures are circling looking to pick up the company's assets for pennies on the dollar.

If this can happen to a widely respected industry leader, than what other scandals await investors? This is what has been on the minds of investors. After **Aphria** (TSX:APHA)(NYSE:APHA) was accused of wrongdoing earlier this year, investors are right to be skittish.

As I've warned investors several times: the industry is a speculative play. I remain steadfast in my opinion, and nothing has changed. The industry remains plagued by poor governance and it is still speculative at best.

Does this mean investors should avoid pot stocks? Not in the least. It simply means that you must be comfortable with a high degree of risk. If you can live with significant volatility and the prospects of losing your shirt — see CannTrust — then this may be the opportunity to buy.

Current pot stock valuations

Prior to the most recent downtrend, marijuana stocks were trading at insane valuations. Now that values have been halved, there is potential value to be had. We are after all talking about an industry in which the leaders are growing sales at a triple-digit pace.

Despite underperforming its peers, **Canopy Growth Corp** ([TSX:WEED](#))(NYSE:CGC) is still the largest company in the industry. At one point, it was also one of the most expensive. That is no longer the case, however.

The company is now trading at a respectable 38 times sales and only 9.24 times forward (2021) sales. Canopy is also backed by one of the largest alcoholic beverage companies in the world — **Constellation Brands** — giving it a level oversight and respectability that separates it from its peers.

On a technical basis, the company is also in oversold territory. It has a 14-day relative strength index (RSI) of 23, which implies it may due for a short-term bounce. An RSI of below 30 is a sign that the company's stock price is oversold from a technical standpoint.

Another stock worth considering is Aphria. The company handled its earlier scandal quite well, and has been by far the best-performing marijuana company. Over the past three months it has lost only 1.54% of its value, while the majority of its peers have suffered double-digit losses.

Aphria also happens to be one of the cheapest pot stocks on the Index. It is trading at an industry low 8.7 times sales and 2.1 times forward (2021) sales. It is also trading at a cheap 1.24 times book value that again is among the lowest in the industry.

Analysts have a one-year price target of \$14.94, which implies 78% upside from today's price of \$8.23 per share.

Legalization of new cannabis products

Notably, there is a significant macro event on the horizon. Edibles, beverages, topicals and extracts will be legalized this coming October, with products expected to be available by mid-December.

Last year at this time, the **Marijuana Index** went on a healthy run in anticipation of the legalization of recreational marijuana.

A similar run-up could occur this fall. Sales of cannabis-infused edibles are expected to reach \$4.1 billion in Canada by 2022. Research has shown that the market is expected to be on top of current cannabis spending. These alternatives are also expected to be higher margin and as such, could generate higher profits.

A word of caution however. Last year, the price of pot stocks tanked once legalization took effect. As such, any spike due to the impending October deadline could be short lived.

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. Cannabis
2. Cannabis Stocks

TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Cannabis Stocks
2. Investing

Tags

1. Cannabis
2. Cannabis Stocks

Date

2025/07/01

Date Created

2019/09/04

Author

mlitalien

default watermark

default watermark