This 1 Statistic Is Nightmare Fuel for Marijuana Stock Investors

Description

Marijuana investors are used to volatility. Since going public, stocks like **Canopy Growth** (TSX:WEED)(NYSE:CGC) have had huge swings up and down but have mostly risen over the long term.

So, for many long-term holders of weed stocks, a bit of beta is no big deal. After all, it's just a matter of time before the next bull gets running and weed stocks start hitting new highs.

Or at least, that's how it used to be.

Today, with many marijuana stocks trading at +30 times sales, they've gotten so expensive that even 300% year-over-year growth can't justify the prices.

Earlier this year, a research firm published a surprising figure that calls into question whether this growth will even continue. On the surface, this number may look like a good sign, but when we dig deeper, it points to the difficulty of marijuana stocks continuing their sky-high revenue growth.

Canadians spent $1.6 billion on legal weed in 2018

Earlier this year, ArcView Market Research and BDS Analytics released a report called "The State of the Legal Marijuana Market."

The report revealed that Canadians spent $1.6 billion on legal marijuana in the final quarter of 2018. This is compared to $0 spent on legal recreational marijuana prior to October 17.

Obviously, this huge, one-time sales jump accounts for a big part of the high triple-digit revenue growth that weed manufacturers have been posting recently. And as you'll soon see, that's bad news for them.

Why that's actually very bad news

When a company benefits from the creation of a wholly new market for which there is pre-existing demand, it naturally sees a big jump in revenue. So, it should come as no surprise that marijuana companies have been posting unbelievable revenue-growth figures in the months following legalization.

Any adult-use sales they report this year are contrasted with $0 earned this time last year. So, total revenue, including both medical and recreational pot, gets an enormous boost.

For example, in its most recent quarter, Canopy Growth reported about $100 million in revenue and year-over-year revenue growth of 249%. That 249% growth figure is the type of stat that marijuana bulls will quote at you when they state their theses for buying weed stocks.

However, a full $60 million of Canopy's $100 million in revenue came from adult-use sales. That $60 million is up from $0 in the same quarter a year before, an obvious one-time jump attributable to legalization.

Once the company starts releasing its 2020 quarterly reports, it will have to compare one quarter that included legal weed to a previous quarter that also included it. To achieve six-figure growth that way will be much harder.

Foolish takeaway

Marijuana stocks have unquestionably been the TSX growth story of the past three years. Going from tiny TSXV upstarts to multi-billion-dollar TSX 60 components, they've grown like few other equities have.

But as we've seen, the biggest one-time boost in marijuana sales that Canada is likely to ever see is behind us. As it fades further into the rearview mirror, revenue-growth rates will likely slow, and marijuana stocks will have a harder time justifying their sky-high prices.

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