



## Oops! 3 Weed Stocks That Plummeted Down to 80%

### Description

In the past year, you've probably thought of weed stocks in the same way you did tech stocks almost two decades ago. Now that these stocks are plummeting, the same worries about a bubble may be ringing in your ears. Many of you were hoping for stellar gains this year and could be on the verge of a panic sell.

Is this the same situation, however, and could there be an explanation? To discover the truth, it's best to look beneath stock prices and find out what triggered the fall in prices.

Three companies have been in the headlines lately, so perhaps these should explain what is happening with the entire industry.

### A scandal with consequences

**CannTrust** (TSX:TRST)(NYSE:CTST) has become the [worst-performing stock](#) among cannabis companies. On March 28 this year, the company announced financial reports for the fourth quarter of the fiscal year 2018 — and the numbers were not impressive.

Sales of marijuana in the quarter did increase 132% from \$6.98 million to \$16.17 million year on year, but there was still a \$25.5 million loss equivalent to \$0.26 per share.

That bad news sent stock prices spiralling downward by almost 50% until some good news in the first quarter of the fiscal year 2019. Although sales did not increase by much (4.3%), CannTrust was finally making a profit, with a reported \$7.7 million gross profit in the quarter.

Nonetheless, share prices kept falling because the company had issued 36.4 million new shares early in May, which most likely caused a dilution of stocks that hurt stock prices.

Then the final blow came in July, when Health Canada discovered several issues with CannTrust facilities. Marijuana was being grown in unlicensed facilities, a strict no-no by the authorities. Now the company can't sell tons of dried cannabis as it awaits a decision from Health Canada.

From a high of \$13.50 in share prices on March 27, shares are now trading at about \$2.32, down more than 80% — and the slide is still going. This company is getting dangerously close to being worth less than its book value, and it may have to pay fines for its executives.

If you read the most recent bi-weekly update from CannTrust, then you should be anxious. On the other hand, this may be an excellent opportunity if the company is acquired by one of its competitors.

## Oversupply is an issue

Although **Aurora** ([TSX:ACB](#))(NYSE:ACB) has not experienced as much decline in stock prices as CannTrust, the story remains much the same. From a high of about \$12.42 in April, Aurora shares are now trading at \$7.75, almost 38% lower.

The next earnings release is expected on September 11, when market projections expect earnings of - \$0.02 per share.

That said, you should be worried about oversupply in the market. According to Health Canada, current inventory was about 300 tons in June, while sales increased by only 450 kilograms in May, yet Aurora is still upping production with a forecast of 625 tons annual production by the end of 2020.

It's not difficult to predict what happens next to these large producers — and the reason why many investors are still holding off [on buying ACB](#) stock even at the current discounted price.

## A big drop

From a high of \$32.50 in March, share prices have plummeted more than 50% on the back of lackluster earnings. In the second quarter of fiscal 2019, revenues increased by 58% from the previous quarter, but adjusted EBITDA losses increased to \$17.80 million.

Therefore, despite a \$2.4 billion investment in **Cronos** ([TSX:CRON](#))([NASDAQ:CRON](#)) by Altria Group (MO) in December, Cronos stock price has gone the way of Aurora and other Canadian cannabis companies.

With the investment from MO, however, Cronos looks poised to become a solid dividend stock for years to come, although you can expect low price earnings.

## Which of these should you invest in?

Weed stocks have always been a bit of a gamble, and you should choose the stock with the most promise and least risk. CannTrust is in trouble, but this isn't the first time a weed company has been in trouble, so there may still be some room to recover.

As for Cronos and Aurora, both of the stocks are cheap right now, and it may be time to buy.

## CATEGORY

1. Cannabis Stocks
2. Investing

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1. NASDAQ:ACB (Aurora Cannabis)
2. NASDAQ:CRON (Cronos Group)
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