



## Why Marijuana Stocks are Dropping Like a Rock!

### Description

Marijuana stocks have been dropping like a rock this year, with the **Horizons Medical Marijuana Life Science ETF** down 31.6% year-to-date. Every one worth mentioning is down for the year, and down even more from March/April highs. The losses come after a tough few quarters for cannabis producers, which have seen ballooning expenses, rising losses, and regulatory scandals. Although marijuana stocks are still growing like wildfire, profitability and regulatory risks continue to be major sticking points.

With marijuana stocks persistently declining in value, many investors want to know why it's happening — and whether it will continue. Although it's impossible to perfectly extrapolate present trends into the future, it *is* possible to explain what has happened in the past. With that in mind, the following are the three main reasons why marijuana stocks have been dropping this year.

### Sky-high valuations

It's no secret that publicly listed cannabis companies are expensive. With price-to-sales ratios north of 20, many of them are among the priciest stocks on the TSX.

A classic case study here would be **Tilray** ([NASDAQ:TLRY](#)).

Its price-to-sales ratio for the trailing 12-month period (23) is already high. What's really incredible, though, is how expensive it *once* was. In the summer of 2018, when the company was earning much less revenue and had a much higher stock price ([as high as \\$200](#)), it cost up to 200 times sales. That's sales, *not* earnings!

Obviously, such a sky-high valuation is tough to justify. And while TLRY's price has come down, it's still more expensive than the vast majority of TSX stocks.

Traditionally these high valuations have been justified by revenue growth rates — which in the marijuana sector can reach as high as 969%. However, that justification may not work forever, as you're about to see.

## Regulatory woes

A high revenue growth rate doesn't mean much if the government can cut off your revenue source.

Unfortunately, that's exactly what happened with the marijuana company **CannTrust Holdings** (TSX:TRST)(NYSE:CTST).

In August, the company was found to have grown up to 5,000kg worth of marijuana in unlicensed rooms, which caused Health Canada to put a hold on 5,000kg of the company's product. Then, the company pre-emptively put a hold on another 7,500kg of its own cannabis. Finally, Health Canada discovered even more unlicensed growing, and suspended the company's license.

At this point, it's become incredibly difficult for CannTrust to sell its product. Although Health Canada has stopped short of permanently revoking the company's cannabis license, during the suspension period it will be as if that were the case. And what happened to CannTrust, could in theory happen to any other cannabis grower — particularly with increased regulatory scrutiny on the entire industry.

## Profit problems

A final point worth mentioning is the fact that cannabis companies are suffering from a persistent lack of profitability.

Although it's normal for early stage growth companies to lose money, many of the top marijuana companies aren't that young anymore, and they're still not profitable.

On the other hand, this is one area where there's some real cause for optimism. Companies like **Aphria** and **Aurora** have been cutting their losses recently, with the former having been profitable in its most recent quarter. **Canopy** recently posted its biggest net loss, but its loss from operations actually shrank sequentially.

These glimmers of hope we're seeing are not an established trend, but they're nonetheless encouraging. If top marijuana producers keep slashing their operating losses, then maybe consistent profitability will become the norm. Let's just hope that [impairment charges](#) don't ruin it in the short term.

### CATEGORY

1. Cannabis Stocks
2. Investing

### 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

**Date**

2025/07/05

**Date Created**

2019/10/14

**Author**

andrewbutton

default watermark

default watermark