



2 Marijuana Stocks That Got Absolutely Crushed in 2019!

Description

Shares from Canada's top pot companies continue to plummet in October 2019. After 16 days into October, **Hexo Corp** ([TSX:HEXO](#))(NYSE:HEXO) is down 35.9%, and **Cronos Group** ([TSX:CRON](#))(NYSE:CRON) stocks are down 7%.

The overall marijuana industry is weak, and share prices across the sector keep on declining. Investors continue to cut their losses and run.

Catastrophic price drops

At the time of writing, Hexo Corp stocks are trading for \$3.25. The current price of the marijuana company's share is 24.6% below the 52-week low from December 24, 2018.

The current price is also over 70% lower than Hexo's 52-week high from April 29, 2019. The fall in the share price for Hexo is catastrophic.

Cronos Group isn't [doing much better](#) than Hexo, either. At \$11.03 per share at writing, Cronos Group stocks are still 22.7% above the company's 52-week lows from October 29, 2018.

The current price for Cronos stocks is 65.3% lower than the company's 52-week high achieved on March 2, 2019. Both Hexo and Cronos stocks have been crushed.

What could be the leading cause of this?

Cannabis stocks saw a sudden drop 10 days into October 2019, soon after Hexo's revised outlook moving forward. The revised forecast from Hexo came around a month after **Aurora Cannabis** missed analyst estimates for sales, as well as the company's forecast, as ACB reported in its quarterly reports in September.

Analysts expected a robust growth for the cannabis industry in 2019, and the past few months have

investors worried. Many significant pot companies missed estimates from analysts, which begs the questions: Were these estimates too optimistic? Is there such a high demand for cannabis in the markets?

These questions cannot be answered with a simple “yes” or “no.” The estimates by analysts for cannabis sales weren’t precisely wrong, and the demand for recreational marijuana remains high. There is one issue that is messing with the estimates and the regulated market: the illegal cannabis industry.

Illegal cannabis is still significant in Canada

There is a vast gap between the price of legal and illicit marijuana in Canada. According to a CBC News report, the illegal market sold cannabis at around \$5.93/gram in the second quarter of 2019, down from \$6.51/gram in December last year. In stark contrast, the cost of legal cannabis production increased from \$9.82 to \$10.65 from December to Q2 2019.

With such a wide gap between legal and illegal cannabis, many consumers are choosing to stick with illicit cannabis to meet their needs.

Legal producers of cannabis have taxes to pay and account for the cost of production and operations. Additionally, the taxes for GST and HST reduce the margins for legal cannabis producers further. Cannabis companies ultimately pass on the additional costs to the end consumers, driving up the prices.

Increasing supply can become a massive problem

As a substantial portion of consumers chooses to purchase their marijuana from illegal cannabis producers, there is a buildup of inventory in the legal cannabis markets. According to Cannabis Benchmarks, the total supply of cannabis in June was more than five times the demand.

Cannabis producers may ultimately reduce product prices as a result. Still, profit margins won’t improve if the companies start giving discounts.

Foolish takeaway

Ahead of [Cannabis 2.0](#), investors have lost all interest in the potential profitability of cannabis stock. Rather than future potential, investors want to see profits now. The weak performance since the legalization of recreational marijuana and higher prices compared to illegal cannabis producers has made a severe impact on the legal pot industry.

Coupled with all the controversy surrounding **CannTrust** and vape incidents, I don’t feel too hopeful for the industry as a whole.

Some investors might still hope to see the cannabis bloodbath end, and the conditions for pot producers improve in the months after Cannabis 2.0. I would be very wary moving forward.

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Author

adamothonman

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