Why is Zenabis Global (TSX:ZENA) Stock Down 32% This Week?

Description

Shares of **Zenabis Global** (TSX:ZENA) have fallen over 30% in the last three trading sessions. The stock is currently trading at $0.47 which is 93% below its 52-week high. Similar to its peer cannabis stocks, Zenabis has also lost considerable value in the last year and has plummeted 50% in October to its 52-week low.

Zenabis shares are trading 54% below its 20-day moving average, 66% below its 50-day moving average, and 73% below its 100-day moving average. With a relative strength index score of 22, Zenabis is trading well into oversold territory.

So, what's driven this carnage?

Zenabis provided an operational update for September

While Zenabis investors have been impacted by the overall weakness in the cannabis sector, its decline accelerated this week after the company provided an operational update for September 2019.

Last month, Zenabis' cultivation output of dried cannabis stood at 2,089 kg. The production at its Athoville facility outperformed revised capacity estimates by 21.8%.

However, Zenabis has now revised its construction timelines for its Langley facility, which sent the stock tumbling. The production capacity at Langley was estimated to rise from 39,400 kg to 94,600 kg annually once the facility was approved by Health Canada.

Now Zenabis has stated that the construction timeline has been split into two phases to preserve cash flow and reduce ramp-up risk due to existing market conditions.

The media release states, "Zenabis expects to submit a license amendment for Part 2B in November 2019 (14,800 kg of licensed annual production capacity). Zenabis expects to submit a license amendment for Part 2C in February 2020 (32,000 kg of licensed annual production capacity) to the extent this is justified by market demand at economic prices. Zenabis' total annual cultivation capacity is expected to increase to 143,200 kg of dried cannabis on completion of licensing at Zenabis Langley early in the second quarter of 2020."

Several cannabis companies are now revising their production estimates downwards citing lower-than-expected demand. This also means Zenabis and peers will look at lowering capital expenditure to optimize supply with demand.

What next for Zenabis and investors?

On October 22, Zenabis announced that it has entered into a cultivation agreement with Tantalus Labs. Zenabis will be able to grow and harvest cannabis plants from clones provided by Tantalus Labs.

These plants will be harvested at Zenabis Langley, and Tantalus Labs will look at drying, trimming, and packaging at its own licensed facilities. This is a two-year agreement with the option of renewing the contract for successive two-year terms on mutual agreement.

A focus on cultivating and harvesting without having to look at supply chain functions will boost profit margins for Zenabis.

Earlier this month, Zenabis announced another agreement with PAX Labs. Here, Zenabis will supply cannabis extracts for PAX Era Pods, which will be used with the Pax Era vaporizer device.

It is too early to gauge the demand for vaping devices especially as several deaths in the U.S., as well as health-related illnesses, have been attributed to vapes.

Has Zenabis stock bottomed out?

With recent pullback, do investors bet on Zenabis Global stock heading into 2020? Analysts expect Zenabis revenue to increase from $86.2 million in 2019 to $396 million in 2021. The company is also expected to grow EBITDA from -$25.1 million to $85 million in the same period.

This indicates the company will be posting an adjusted profit by 2020. Though sales forecasts need to be revised after Zenabis' recent update, the focus on profitability should attract investors. Just last month, the average revenue estimate for Zenabis stood at $478 million in 2021.

The uncertainty in the cannabis sector will continue to result in volatility. But, analysts have a 12-month average target price of $3.63 for Zenabis which is a significant 672% higher than the current trading price.

CATEGORY

1. Cannabis Stocks
2. Investing

PARTNER-FEEDS

1. Business Insider
2. Msn

3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Cannabis Stocks
2. Investing

Date
2025/07/06
Date Created
2019/10/24
Author
araghunath