Big 3 Marijuana Stocks Steer Off a Cliff: Which Will Climb Out 1st?

Description

If you have ever thought about investing in cannabis stocks, then you must have come across the big three marijuana companies: **Canopy Growth**, **Aurora Cannabis**, and **Aphria** (TSX:APHA)(NYSE:APHA).

However, all these companies have experienced a downturn in share price since October 25. That is not to say that you should no longer invest in cannabis stocks. In fact, this may be the ultimate opportunity to buy the best one during the dip. The only question to ask yourself is, which one shows the most promise? To answer that, though, you have to look at each company in detail.

Canopy Growth

The largest cannabis company by market capitalization got a massive boost through an investment from **Constellation Brands** worth $5 billion for about 38% ownership. Unfortunately, the investment has still not borne fruit, since Canopy Growth stock is down almost 60% from a high of $72 earlier in the year.

Constellation's investment has allowed Canopy to focus on expansion in Europe of companies such as Acreage Holdings, Beckley Canopy Therapeutics and a majority stake in BioSteel Sports Nutrition.

While global acquisitions put Canopy's standing in a superior position against its competitors, it has resulted in major quarterly losses, which is likely to continue. Unless it can start to turn these investments into actual returns soon, investors will start to get anxious and lead to short-term losses in share price.

Aurora Cannabis

As the largest cannabis producer in Canada, Aurora has probably not given you much to admire, dropping about 65% of its share value in the past six months. Unfortunately, it is Aurora's very high supply that is causing problems for it, because there is simply too much marijuana. Worse still, the company is still spending money on the construction of greenhouses and farms.

This has forced the company to sell its marijuana at wholesale prices while still making a loss and up to $3.17 billion in goodwill. To make up for these near-term losses, Aurora intends to invest in international markets, but this means waiting for the profits to be realized.

Aphria

Unlike its competitors, Aphria has actually managed to turn a profit for two consecutive quarters. Many companies in the industry are making losses, and markets expected the company to report a net loss of $0.02 per share. Instead, a profit of $0.07 per share was reported in the first quarter of fiscal 2020, equivalent to $16.4 million in net profit. Revenue was also up from $13.3 million to $126.1 million year on year, although this was not surprising, considering marijuana was only recently legalized in Canada.

These results were great, but only for a moment, leading to a slight jump in stock prices up to $7.15 before dropping down to $6.73 at the time of writing. Furthermore, the revenue was lower than market expectations of $131 million. Investors became suspicious of their financial reports, taking note of $17.9 million earned in fair-value adjustments, without which the company would have made a loss. The company's fiscal 2020 outlook was also very aggressive and would need to raise quarterly revenue up to $100 million for the next three quarters just to achieve its goals.

Which one has the highest likelihood of recovery?

Both Canopy and Aurora have invested heavily in international markets, hoping to gain from these markets and offset losses in local markets. This is a great strategy for a long-term investment, but Aurora remains to be the more popular choice. Meanwhile, Aphria investors are getting wary of the company's financials, which should further improve Aurora stock price on the breakout.

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