A Cringeworthy Month for Marijuana Stocks With Drops of Almost 40%

Description

As cannabis stocks continue to experience a massive decline in share prices, it appears the trend will end anytime soon. There are plenty of people tying up their hopes with cannabis stocks.

Some of my fellow fools believe that stocks like **Canopy Growth Corp** (TSX:WEED)(NYSE:CGC) make an excellent buy right now while the share prices are down.

I agree that if you manage to stock up on shares from Canopy and **Aurora Cannabis Inc** (TSX:ACB)(NYSE:ACB) and *if* the companies manage to start turning a profit, you stand to gain a lot. The situation right now, however, does not reflect well on the prospects for both Canopy and Aurora.

The companies are both down by almost 40% in just the past month, and the bad times continue.

Aurora Cannabis

Based on the share prices compared month over month, Aurora Cannabis stocks are down 37.50% at writing. On November 15, 2019, ACB announced its fiscal first-quarter results of 2020 (with the year ending in June).

A net income of $70.8 million in this time is well below consensus estimates of more than $93 million. Shares of ACB dropped 36.84% in just the past five days from writing.

The gross profit before the fair-value adjustments in the quarter ending in September 2019 stood at $42.5 million. At 56.5% of the total revenue, the gross profit was still better than 53% from the same period in the last year. The gross margin increased as ACB successfully lowered production costs by 25% to bring it down to $0.85 per gram.

Canopy Growth

In the September quarter for fiscal 2020, Canopy Growth reported sales of $76.6 million. A bit of a positive sign, it is a year-over-year growth of 228% compared to the same period last year. The earnings per share for Canopy improved from -$1.52 to -$1.08.

The revenue of $76.6 million was an improvement from the same period in the past year, but not as good as expected. Analysts pegged Canopy to post sales of more than $108 million and earnings per share of -$0.39 in Q1 2020. The expectations and actual earnings and revenue were far from what the marijuana industry expected and needs right now.

Foolish takeaway

If you are a potential cannabis investor or a former one, I do have a bit to offer in terms of what you could take away from this. At the time of this writing, Canopy shares are trading for $18.78, while ACB is trading for a flat $3.00 per share. The stocks are down 29.32% and 37.50% month over month amid continuing decline.

Canopy is restructuring charge. The company is introducing new retail pricing architecture, a rationalized package assortment, and improving its marketing strategy to deal with the lower demand and rising inventory levels.

ACB and Canopy are relying on Cannabis 2.0 and products for both companies to hit the retail markets mid-December. The sales could create the turnaround that the marijuana industry needs.

I would say that if things turn out well when the products hit the retail markets, profitability could be on the distant horizon for both Canopy and ACB. I would not advise keeping all your eggs in these two baskets.

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