Will Horizons Marijuana Life Sciences ETF (TSX:HMMJ) Rise in 2020?

Description

Horizons Marijuana Life Sciences ETF (TSX:HMMJ) is trading at $9.18. The ETF has lost 39.4% year to date and has returned -46% in the last 12 months. HMMJ is trading 63% below its record high. The ETF began publicly trading on April 7, 2017. It closed trading at $10.84 that day, which means that HMMJ is currently trading at a multi-year low.

While 2019 has seen cannabis investors lose vast amounts of wealth, will the ETF be able to end the year on a high and recover a part of these losses?

Canopy, Cronos, and GW Pharmaceutical dragged HMMJ lower last month

Canopy Growth is HMMJ's top holding and accounts for 10.7% of the ETF. Shares of Canopy are trading at $24.51, which is 65% below its 52-week high. Canopy Growth lost over 5% last month after it reported lower-than-estimated quarterly revenue figures.

Cronos Group is HMMJ's second-largest holding and accounts for 10.02% of the ETF. Shares of Cronos are trading at $9.03, which is 73% below its 52-week high. Cronos lost about 17% last month after it reported lower-than-estimated quarterly revenue figures.

GW Pharmaceuticals is HMMJ's third-largest holding and accounts for 8.8% of the ETF. Shares of GWPH are trading at $102, which is 48% below its 52-week high. GWPH investors lost 17% on November 6, 2019, after the company reported its third-quarter results.

HMMJ's performance largely depends on its top three holdings, which account for 29.5% of the ETF. The other top holdings of the ETF include **Tilray**, **Aphria**, and **Aurora Cannabis**, which account for 8.64%, 8.14%, and 7.78%, respectively, of HMMJ.

Short-term weakness in the cannabis space likely to continue

We have seen that Cronos and Canopy shares have fallen, as these companies have been impacted by the grave oversupply of cannabis products in the recreational marijuana space. The rollout of retail stores across Canadian provinces has been much slower than expected. Further, the cannibalization of sales from Canada's illegal market is hurting pot stocks severely.

The illegal sales of cannabis products in Canada account for over 40% of total sales, and it will continue to impact the top line for Canopy, Cronos, and peers. The slow retail rollout and product cannibalization have resulted in a significant rise in inventory levels of Canopy and Cronos.

According to a *Cannabis Benchmarks* report, top pot manufacturers such as Canopy and Aurora Cannabis have managed to sell about 30% of their harvest in the September quarter. The high inventory levels will mean that Canopy and peers might have to write off a significant portion of their inventory.

In the September quarter, Canopy wrote down $15.9 million in inventory, which accounted for around 20% of its quarterly sales.

Upcoming Cannabis 2.0 critical for HMMJ and pot stocks

Though cannabis-infused products were legalized in October 2019, they are likely to hit retail markets later this month. Investors will be banking on strong sales in the holiday season (which starts with the U.S. Thanksgiving and ends with the New Year) to boost top line of pot companies.

If the demand for cannabis-infused products is encouraging, we can expect marijuana stocks to make a strong comeback over the next few months. Several pot companies have invested heavily in Cannabis 2.0 and are ready for the retail roll-out this month.

I had stated that investing in HMMJ is the best bet for risk-oriented cannabis investors. The ETF provides enough diversification and has the potential to create substantial investor wealth given the increasing addressable market.

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