TFSA Users: Will Cannabis Stocks Rebound in 2020?

Description

Cannabis stocks have been ravaged into the final month of 2019. Several factors have contributed to this decline. Recreational legalization in Canada cannot be called a failure, but it has not exactly been a success either. The rollout was plagued by a supply crunch in the opening months. Major producers have ramped up production in 2019, but the retail rollout across Canada has left consumers wanting. In Ontario, the most populous Canadian province, there were only 24 retailers open in the middle of November compared to 324 in Alberta.

The top two producers on the TSX have suffered in the second half of this year. **Canopy Growth** (TSX:WEED)(NYSE:CGC), the largest cannabis company on the TSX by market cap, has seen its stock has dropped 33% in 2019 as of early afternoon trading on December 5. Management recently pushed back its profitability projections to a three- to five-year range, which sparked a sell-off into the fall season.

As rough as Canopy has had it, **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) shareholders have more to complain about. Shares of Aurora have fallen by 51% in 2019 at the time of this writing. In late November, I'd asked whether it was a good idea to snatch up Aurora, as it nears a 52-week low. Let's go over a few factors that could lead to a big rebound at Canopy and Aurora in 2020 and beyond.

"Blue wave" potential

Cannabis policy in the United States is set up for big moves over the next decade. Many boosters in the sector are counting on a Democratic win in the 2020 presidential election. Two of the top front-runners for the Democratic nomination, Bernie Sanders and Elizabeth Warren, have already unveiled federal legalization plans. Joe Biden, who has consistently polled as the top Democrat in national polls, has spoken against legalization.

Canopy Growth has already charted its path into the United States with its conditional purchase of Acreage Holdings for $3.4 billion. Aurora has also plotted entry into the huge U.S. market. A "blue wave" in 2020, especially if it is a candidate like Warren or Sanders, will likely give top producers a boost.

The long road to profitability

As is stands today, Canopy Growth and Aurora are still fighting to achieve profitability. Aurora had originally forecast profitability in the 2019 fiscal year, and it is now projecting to hit the mark by the second half of the 2020 fiscal year. Canopy, however, is still a few years away from turning a profit. Fortunately, Canopy possesses massive reserves of cash compared to Aurora, which has been forced to scale back operations as it battles with its liquidity.

Should you buy low?

Canopy Growth stock has bounced back marginally from its 52-week low of $18.23. It may not seem appealing, as it is years away from profitability, but its great cash situation and extensive global footprint holds promise. A breakthrough in the United States would be big news for Canopy going forward.

Shares of Aurora had an RSI of 36 at the time of this writing, putting it just outside technically oversold territory. The company needs to string together some positive quarters to win back the faith of investors over the next year.

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Date
2025/08/25
Date Created
2019/12/05
Author
aocallaghan