



2 Pot Stocks That Can Survive the Coronavirus Crash

Description

Pot stocks were crushed during the 2019 [marijuana downturn](#). The 2020 coronavirus pandemic has made a bad situation worse.

Many investors are hoping that the coronavirus crash will be a brief affair. Encouraging data points from China and South Korea prove that the pandemic can be contained, but countries like the U.S. and Canada could be weeks or months away from a slowdown.

Here's the most important thing to keep in mind: the bear market won't end once the coronavirus passes. Thousands of small businesses are already being pressured. Many will go out of business, never to return. Larger corporations are also feeling the crunch. Firms that appeared well capitalized are suddenly preparing for the worst.

Pot stocks are particularly vulnerable. Most are just starting to ramp sales. Many are years away from generating positive free cash flow.

In the 2008 financial crisis, it was wrong to think that the damage would be limited to a few thousand people defaulting on their mortgages. Due to our hyper-connected financial system, the systemic effects had a far-reaching impact. The coronavirus crisis will follow a similar path.

In years past, it was valuable to find out which pot stocks would grow the fastest. This year, it's critical to determine which pot stocks can *survive*.

Pot stocks will change forever

For years, continued financing was a given for pot stocks. Even if it involved diluting shareholders or issuing expensive debt, new capital could be brought in, especially when prices were skyrocketing in 2018.

Access to capital can no longer be taken for granted. Investors and institutions are scrambling to raise cash as asset prices fall. Companies that have elevated debt levels or lacklustre credit ratings are in

trouble. Firms that can't quickly pivot to a cash flow neutral business model may not survive without massive government intervention.

Green Organic Dutchman Holdings is a prime example of what can go wrong when capital dries up. Sales aren't expected to ramp strongly until later this year, meaning inbound cash flow is low. Last quarter, the company posted a net loss of \$160 million. That's greater than the current market cap. Green Organic has less than \$30 million in cash, yet it's burning more than \$20 million per quarter.

Since the pandemic began, shares have shed 50% of their value. It's doubtful that capital markets will come to the rescue. An outright bankruptcy is in the cards.

These companies will survive

Remember, it's not about future growth at this point, it's about surviving the current crisis. Whichever pot stocks survive have the opportunity to consolidate the market, acquiring insolvent competitors and taking their market share. Only a handful of companies are a shoe-in for survival.

The first is **Cronos Group**. As of last quarter, the company had \$2.2 billion in cash. The company has virtually no debt and is only burning roughly \$300 million per quarter when stripping out acquisitions. This gives the company at least a year of runway before it needs to tap capital markets.

Cronos is in such an enviable position thanks to its agreement with **Altria Group**, which infused the company with \$2.6 billion in cash last year. If conditions turn dire, Cronos can likely turn to Altria again for an emergency infusion.

Canopy Growth is in a similar position. The company has more than \$2 billion in cash and short-term securities. Its burn rate is also roughly \$300 million.

As with Cronos, Canopy secured this comfortable position thanks to a previous deal with **Constellation Brands**, which pumped \$4 billion into the company. Constellation generates a large amount of quarterly free cash flow, so if Canopy needs to top off its reserves, a lifeline will be available.

This is an incredible opportunity to scoop up distressed pot stocks. Just make your picks carefully.

CATEGORY

1. Cannabis Stocks
2. Coronavirus
3. Investing

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TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. NASDAQ:CRON (Cronos Group)
3. NYSE:MO (Altria Group, Inc.)

4. NYSE:STZ (Constellation Brands Inc.)
5. TSX:CRON (Cronos Group)
6. TSX:WEED (Canopy Growth)

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