Coronavirus Impact: What Will Happen to Canada's Marijuana Stocks?

Description

Much of the country is on lockdown, as authorities tackle the coronavirus outbreak. Investors are rightfully concerned about the impact on the Canadian economy and investments. A nearly 100% decline in economic activity is unprecedented, and there's no easy way to measure the long-term consequences. Particularly concerning are the country's legal marijuana stocks.

The cannabis sector was already struggling with supply-chain and debt issues. Now, the sector has collectively lost billions in value as the stock market crashed. Investors have dumped unprofitable cannabis stocks as the global market becomes more risk averse.

However, savvy investors willing to make a contrarian bet could find some opportunities in this market crash. Here's how.

Marijuana sales

Ontario premier Doug Ford announced that all "non-essential" businesses will be required to shut down from midnight Tuesday for a period of 14 days. That means plenty of small restaurants, salons, and gyms will have to remain shut, which could create cash flow issues.

However, the legislature seems to have made an exception for pot shops. Legal cannabis stores are not classified as "non-essential" according to *BNN Bloomberg*. This is also true in Quebec, another province that has shut down recently. In fact, legal marijuana sales have spiked in recent weeks. It seems social distancing leaves people with more time on their hands and few other alternatives for recreation.

A spike in sales while the rest of the economy shuts down could be a boon for the struggling marijuana sector. However, not all companies are well positioned to survive this ongoing crisis unscathed.

Debt concerns

Corporate debt has always been a concern for the cannabis sector. **Tilray**, for example, reported $1.64 in debt for every dollar in equity in its latest filing.

As capital markets become more volatile, investors tend to dump risky corporate debt, making it more expensive for companies to borrow. This spike in debt interest rates, and lack of funding from investors could create serious cash flow issues for companies with too much debt and no profits.

Top marijuana stocks

The top marijuana stocks seem much better placed to survive this crisis. **Canopy Growth**, for example, has a debt-to-equity ratio of just 12%. The company is also backed by one of the largest alcohol companies on the planet and has roughly $2.3 billion in cash and cash equivalents on its books.

If Canopy's Tokyo Smoke stores remain open across Canada and sales spike while smaller rivals face cash flow issues, the company has a chance to finally consolidate the market. Seizing more market share now will allow larger companies like Canopy to emerge as the dominant players in this fascinating sector.

Foolish takeaway

The stock market crash reflects the growing concerns about our economy and health. As the COVID-19 pandemic accelerates, the provincial and federal governments could be compelled to take tougher measures. Social distancing and extensive shutdowns are likely to have a long-term impact on the local economy.

However, well-funded cannabis companies could survive this downturn and seize more market share. Contrarian investors seeking opportunities should probably add the top marijuana stocks to their watch lists for 2020.

CATEGORY

1. Cannabis Stocks
2. Coronavirus
3. Investing

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Date
2025/08/26
Date Created
2020/03/24
Author
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