Stock Market Crash: Cannabis Stocks May Finally Be Worth Looking At!

Description

In 2020, the COVID-19 pandemic is wreaking havoc on a number of industries. Legal cannabis, it seems, isn't one of them. According to data from the cannabis analytics company Headset, legal marijuana sales spiked in five U.S. states last week, as residents prepared to shelter at home. *Marijuana Business Daily* reported a similar spike in Canada, with one store owner reporting a 20% increase in sales.

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The data we're seeing on marijuana sales is consistent with long- established economic trends. In past recessions, it has been observed that sales of alcohol and tobacco spike as consumers seek respite from difficult times. Legal cannabis would fall into the same category. As a "vice" product, it's the exactly the type of item you'd expect consumers to buy when times are tough.

Which brings us to cannabis stocks. Over the past year, they've been among the worst-performing stocks on the **TSX**, falling precipitously since the day cannabis was legalized. Mounting losses have been the main culprit for the problem, with regulatory headaches a distant second. Now, however, cannabis stocks are cheaper than ever, and poised to see revenue soar. The question is, does that make them buys?

Marijuana stocks have gotten cheaper

One reason for considering cannabis stocks right now is that they've gotten cheaper. **Canopy Growth Corp** (TSX:WEED)(NYSE:CGC) is currently trading at 1.23 times book value, while **Aphria Inc** (TSX:APHA)(NYSE:APHA) trades at 2.26 times sales and 0.6 times book value.

This is the cheapest we've seen these stocks in a long time. Immediately before legalization, Canopy was trading at well over 30 times sales, with other cannabis stocks having similar valuations. So these stocks are getting cheaper at the same time as marijuana sales are increasing. That certainly seems like a reason to buy. However, we still need to look at the question of profitability.

Some cannabis companies showing signs of profit potential

For the longest time, profitability was the big question mark hanging over the cannabis industry. While it's normal for young companies to run losses, the staggering losses seen in 'big weed' have really been something else. Canopy Growth posted a $1.3 billion loss for a *single quarter* recently, while Aurora Cannabis took a billion dollar impairment charge.

It's not surprising that these colossal losses would lead to depressed stock prices. However, more recently, we've been seeing encouraging signs on the profitability front. Recently, Aphria posted two consecutive profitable quarters. Its most recent quarter was a loser, but the loss was small as a percentage of sales. Canopy on the other hand had a $124 million loss in the third quarter. That's a pretty big loss, but it's down from a $374 million loss in the prior quarter.

Overall, I'm still not optimistic that cannabis companies will broadly move toward profitability. However, we're starting to see some individual companies like Aphria set themselves apart from the pack. These stocks may finally be worth considering in light of their cheaper prices.

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