1 Pot Stock You Should Stay Far Away From During the COVID-19 Pandemic

Description

Pot stocks are not safe investments, even in the best of days. But amid a pandemic, when many businesses are shut down and travel is virtually non-existent, there are some stocks that are going to feel the impact a lot more heavily than others will.

In particular, any business that's based in Las Vegas can be especially risky right now, as tourism is taking a big hit. That's why cannabis investors will want to avoid Nevada-based **Planet 13 Holdings** (CNSX:PLTH), at least for now.

Visitor numbers down significantly in Las Vegas

There's nothing fundamentally wrong with Planet 13's business, except that the state it operates in is going to see fewer tourists. And fewer tourists means that the pot stock's SuperStore location will undoubtedly take a hit.

According to the Las Vegas Convention and Visitors Authority, there was an estimated 58.6% decrease in the number of visitors that came to the city during the month of March. And that was still in the early stages of the pandemic. Occupancy rates were 39.8% compared to 91% at the same time last year.

What's concerning is that those numbers are likely to get even worse. Consumers are like to remain hesitant to go anywhere, even if there are no more travel restrictions. Not only are millions of people in North America out of work and struggling to make ends meet, but the COVID-19 pandemic is still nowhere near over.

Planet 13 could be headed for a rough ride this year

For Planet 13, its quarterly results this year could take a big hit. On April 14, the company released its year-end results for 2019. And it also announced its revenue for the first quarter of fiscal 2020. During Q1, the company saw year-over-year sales growth of 20%. It credits the increase with its continued expansion and development of the SuperStore.

However, it’s still too early to gauge the impact of COVID-19, as many pot shops saw spikes in demand during the month of March, when consumers were panic buying and loading up on essentials, including cannabis.

The real test for the company will come in the second quarter, where a slowing economy may have a much more significant impact on Planet 13’s results. The good news is that the cannabis company has generally been one of the safer stocks to buy; it generates positive cash flow from its operations, and it posts profits as well.

During 2019, Planet 13 incurred a net loss of US$6.7 million. But that was after tax expenses wiped out a modest pre-tax profit of less than US$1 million. But if the company’s losses rise as a result of COVID-19, and it starts burning through cash, there could be a lot of bearishness that sends the stock down.

Through the first four months of 2020, Planet 13’s stock tumbled 37%, which is even worse than the 28% decline that the **Horizons Marijuana Life Sciences Index ETF** has gone on during that time.

Bottom line

Planet 13 is not a bad long-term buy. While I wouldn’t buy it during the pandemic, that’s only because the stock could be headed for a very bumpy ride. It could be a great buy towards the end of the pandemic and before the U.S. economy starts to open up completely.

Planet 13 has tremendous potential, but it’s also tied to Las Vegas. Until the city is back to where it was before the pandemic hit, it’s likely to weigh down businesses that operate in that area, including Planet 13. That’s why for now, the safest strategy is to avoid the stock altogether.

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djagielski