

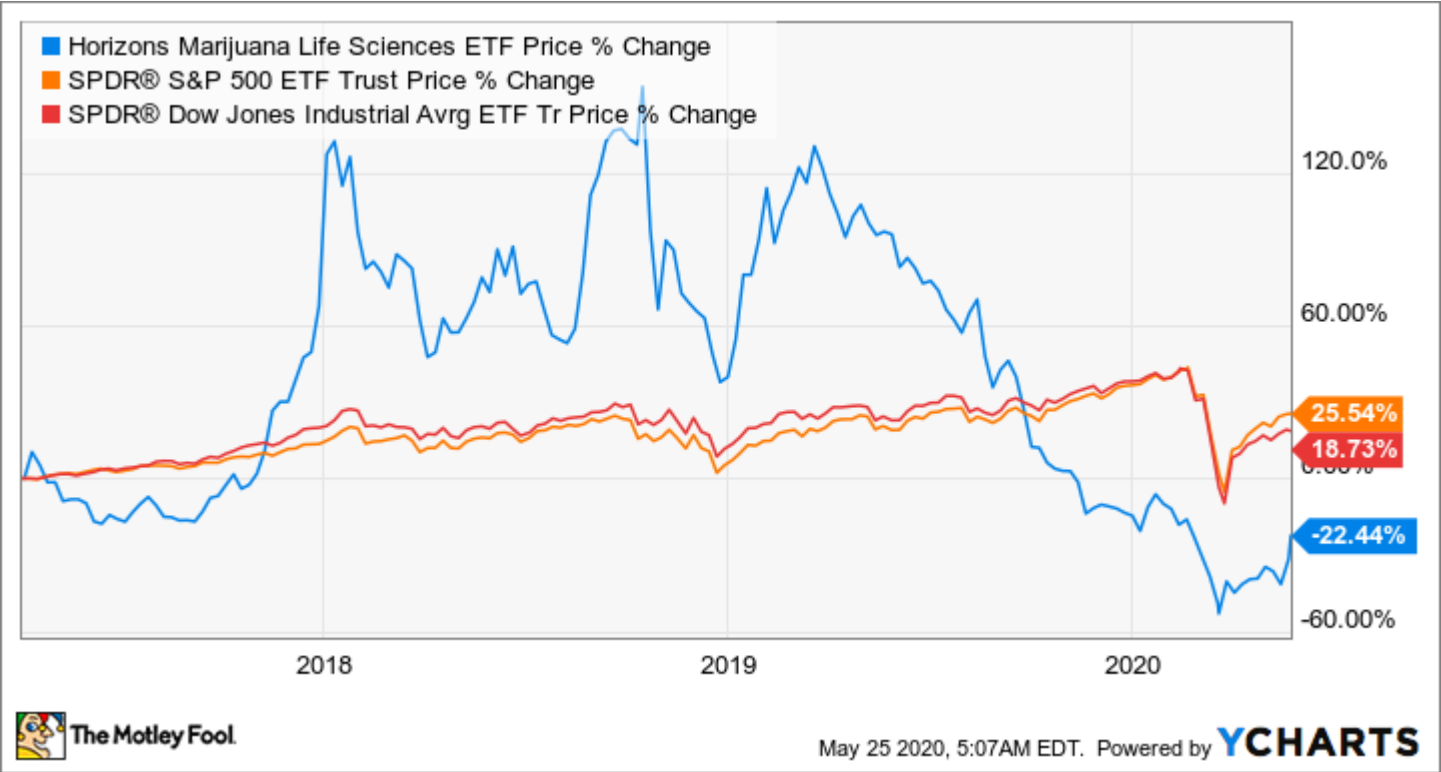


Should You Buy the HMMJ ETF Right Now?

Description

In the last 15 months, cannabis stocks have time and again disappointed investors. Several stocks have lost close to 70% in market value in the last year. With structural issues grappling the marijuana sector, does it make sense to invest in the **Horizon Marijuana Life Sciences ETF** ([TSX:HMMJ](#))?

This ETF provides investors with exposure to a basket of publicly listed pot stocks in North America. Though the HMMJ has grossly underperformed major North American indexes such as the **Dow Jones Industrial Average** and the **S&P 500**, the rapidly expanding addressable market in the cannabis space is too attractive for growth investors.



HMMJ data by [YCharts](#)

Investing in an ETF provides diversification and reduces risk substantially. The HMMJ thus seems a winning bet for risk-oriented pot investors.

GW Pharmaceuticals is the top holding of the HMMJ

U.S.-based **GW Pharmaceuticals** ([NASDAQ:GWPH](#)) is the largest holding of the HMMJ and accounts for 14.1% of the ETF. This company has the [only cannabis-based drug](#) (epidiolex) approved by the FDA. Epidiolex helps to treat people with Dravet syndrome. Last year, the European Commission also approved the drug which will secure the company's top-line growth in the upcoming decade.

Analysts expect GW Pharma to grow sales by 68.6% to US\$525 million in 2020 and 57.4% to US\$826.4 million in 2021. In 2018, its sales stood at a measly \$12.7 million. GW Pharma stock is trading at a premium. Its market cap stands at \$47.3 billion and the price to forward sales ratio is an astonishing 90. While the company continues to post an adjusted loss, it is expected to turn profitable in 2021.

GW Pharma's price to 2021 earnings multiple stands at 27. In the next five years, GW Pharma earnings are expected to grow at a massive rate of 614% annually.

Canopy Growth accounts for 13.8% of the ETF

Canopy Growth ([TSX:WEED](#)) (NYSE:CGC) is a Canada-based cannabis giant. It accounts for 13.8% of the HMMJ ETF. This stock is currently trading on the **TSX** at \$27.1, which is 64% below its record highs. Canopy Growth is backed by beverage giant **Constellation Brands** that has close to 40% stake in the former.

Constellation Brands' investment in Canopy Growth has meant the pot heavyweight has a cash balance of \$1.6 billion at the end of its most recent quarter. In the fiscal third quarter of 2020, Canopy reported sales of \$123.8 million, up 62% sequentially. Its net loss fell from \$375 million in Q2 to \$124 million in Q3.

Canopy's leadership position in Canada coupled with the above-mentioned investment and the legalization of cannabis 2.0 products make it a strong pick for long-term investors.

These are just two top stocks part of the HMMJ ETF. The cannabis industry is still at a nascent stage. The long-term outlook remains attractive as several states south of the border look to legalize marijuana. There is a huge growth opportunity in Europe as well, especially in the medical cannabis segment.

There are multiple players in the cannabis space currently. Similar to the dot.com bubble, only a handful of pot companies might be successful while several might go bankrupt, making HMMJ [a compelling bet](#) in an uncertain environment.

CATEGORY

1. Cannabis Stocks

2. Investing

TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. TSX:HMMJ (Horizons Marijuana Life Sciences Index ETF)
3. TSX:WEED (Canopy Growth)

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