Should You Buy Pot Stocks Now?

Description

Most pot stocks have stumbled during the pandemic. Are any marijuana stocks on the **TSX** a good buy now?

The cannabis industry is having a hard time

Even before the coronavirus pandemic, analysts predicted a difficult time for the cannabis industry, as liquidity and funding dried up. Layoffs, managerial departures, and large write-downs were common among the big players. Big producers, such as **Canopy Growth** and **Aurora Cannabis**, have reduced their operations. Now, with the pandemic continuing to spread across North America, money in the bank will become more crucial.

Some analysts and leaders argue that the cannabis industry and related stocks still have long-term growth potential. But the pandemic has spoiled financial forecasts.

As governments urged people to stay inside in March, there have been reports of increased demand for cannabis as medical marijuana customers stocked up on prescriptions and recreational customers loaded up on something to make the lockdown a little bit easier or a little less boring.

However, Canada's big pot producers face increased price competition as competitors launch cheap weed brands in an attempt to compete with the black market.

After the pandemic forced a shutdown of the physical retail world, investors and analysts have become more focused on companies that have enough cash to overcome the outages. Analysts said Canopy Growth and **Cronos Group** held healthy cash positions, thanks to large investments from **Constellation Brands** and **Altria**, respectively.

Aphria is one of the best pot stocks

The coronavirus pandemic will be a crucial test to determine how much people want or need weeds if the economy continues to suffer more. It is not clear which pot stocks will be the winners in the long run. Problems continue to accumulate. Most of the marijuana companies have been struggling to achieve profitability.

If you want to buy one pot stock, **Aphria** (TSX:APHA)(NASDAQ:APHA) is probably your best bet. Indeed, Aphria is one of the few profitable pot stocks. It has reported a positive EBITDA in its past four quarters. It also has a strong balance sheet, with a solid net cash position of $515.1 million at the end of the third quarter.

Analysts expect Aphria to report $540 million in revenue for 2020. Company management will focus on the medical and recreational sectors to drive sales. In May, ASG Pharma, the company's subsidiary in Malta, received EU GMP certification. Certification could boost the company's sales in Europe.

In Canada, the company will focus on compelling value and product differentiation to drive sales. Management has announced that it will soon launch Cannabis 2.0 products, edibles, drinks, and topical products. These new derivatives could unlock the company's growth potential.

In the third quarter, Aphria began operating its production facilities, Aphria One and Aphria Diamond, at full capacity. These new capabilities will increase the company's production capacity and help reduce its cash cost per gram.

For the next four quarters, analysts expect Aphria to announce an EBITDA margin of 9.3%. The estimate represents a significant improvement over 1.9% in the same four quarters of last year. Aphria is a solid defensive play in the marijuana sector.

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Date
2025/08/26
Date Created
2020/07/23
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