TSX Cannabis Stocks: Will There Be Respite for Investors Anytime Soon?

Description

TSX cannabis stocks continued to trade subdued this year after a deep plunge in the second half of 2019. While analysts paint a rosy picture for some of the popular pot stocks, lasting stability could still be a distant dream throughout the industry.

The industry keeps struggling with the fundamental issues like oversupply and growing dominance of the black market. The market has seen a number of players entering the cannabis market because of its alluring growth potential. However, although the total addressable market is growing, it has been far slower than the total supply. This has led to more and more stockpiling in the last few months, indicating more pain for pot producers.

So, what should investors do in the current situation?

Aurora Cannabis: Top TSX cannabis stock

Aurora Cannabis (TSX:ACB)(NYSE:ACB), which saw stupendous growth last year, has witnessed relatively slower revenue growth in the fiscal year 2020. The stock has fallen more than 65% so far in 2020.

The company management has kept its target of turning the company EBITDA positive by the next quarter. With several cost-cutting measures and expected higher revenues during the pandemic, Aurora Cannabis might be able to achieve that. However, turning profitable could still take years.

A higher amount of goodwill, which forms more than half of its total assets, could also concern discerned investors. A goodwill impairment will eventually dent its bottom line in the medium to long term.

Aurora is one of the biggest pot producers with a capacity of 150,000 kilograms/year. ThoughCannabis 2.0 variants like gummies and chocolates offer higher growth prospects, a limited number ofretail stores and a slower-than-expected demand will likely be some major hurdles. Also, greatercompetition for market share will likely hurt its profit margins.

A relatively safe bet in a risky industry

Aphria (TSX:APHA)(NASDAQ:APHA) is a relatively better cannabis stock for a number of reasons. It has fallen almost 25% since its latest quarterly release late last month. The results were not that bad, and the recent correction could be an attractive opportunity.

Though Aphria posted a net loss of $99 million for the quarter, a large portion of that was from one-time charges. On the positive note, its revenues and gross profit margins trended higher for the quarter compared to the same quarter in 2019.

Interestingly, Aphria is aggressively growing its market share in the cannabis derivatives markets. Its strong presence in the vapes segment, higher investments in growth markets like Germany and Colombia, and, importantly, stronger balance sheet notably differentiates itself from peers.

Importantly, Aphria stock looks attractive from the valuation standpoint and is relatively cheaper against peer cannabis stocks. Its better financials and higher growth prospects could be highly comforting in this risky industry.

Bigger players pose bigger challenges

The biggest pot stock by market cap, **Canopy Growth** (TSX:WEED)(NYSE:CGC), also failed to impress investors recently. It has lost approximately 40% in the last 12 months.

While its revenues for the recently reported quarter rose 22% year over year, its net loss actually narrowed. Despite raising much-needed funds from **Constellation Brands**, Canopy Growth continued to burn cash at a rapid pace in the last few years. Despite the stock's weak performance recently, it looks relatively expensive from the valuation perspective.

Investors should note that the cannabis industry is still in the nascent stage and, thus, has plenty of uncertainties involved. TSX cannabis stocks will likely keep trading highly volatile and could be risky bets for conservative investors.

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