Marijuana Investors: 2 Canadian Pot Stocks to Avoid In 2020

Description

Things continue to get uglier for cannabis stocks and investors. The bull run that ended in October 2018 seems like a distant dream given the sustained sell-off in marijuana stocks.

Pot companies have been hit hard by lower than expected demand and a thriving black market. This has increased inventory levels and hurt profit margins. Further, the COVID-19 pandemic and a tepid demand environment have exacerbated these issues.

Here we look at two pot stocks trading on the **TSX** that remain vulnerable in 2020.

Hexo is trading 90% below its record high

Hexo stock went public on the **TSX** back in November 2019 at a price of $1.05 per share. This means a $1,000 investment in Hexo's IPO would have been worth $885 today. However, investors who bought the stock at the start of January 2019 would have experienced a significant decline in portfolio value.

Hexo remains of the largest companies in the recreational marijuana space. It signed a five-year agreement with the Quebec province to supply 200,000 kilograms of recreational cannabis. Further, similar to most pot stocks, Hexo was eyeing expansion in the Cannabis 2.0 market as well.

However, supply bottlenecks and the ongoing pandemic has wreaked havoc for the Canadian marijuana giant. Hexo had to reduce operating expenses and reduce supply to meet consumer demand. It also sold off the Niagara grow farm acquired in 2019 with the acquisition of Newstrike Brands.

Hexo ended the April quarter with a cash balance of $95.66 million. Comparatively, it has a debt of $109.34 million and with operating cash flow of a negative $174 million, its liquidity position remains precarious.

In June 2020, Hexo raised $34.5 million in an at-the-market offering and diluted investor wealth. There is a good chance that Hexo will have to resort to a reverse stock split to avoid getting delisted from the **New York Stock Exchange.**

Hexo is looking to gain traction in other international markets and recently set up a supply agreement with an Israel-based medical cannabis company. It is also trying increase its visibility in the U.S. with the launch of non-alcoholic, hemp-derived CBD beverages in Colorado.

While diversifying its revenue and entering additional markets will help Hexo in the long run, its cash position and mounting losses remain a major cause of concern.

This pot stock is down 91% from the record high

Similar to Hexo, **The Green Organic Dutchman** (TSX:TGOD) has also been decimated since the end of 2018. Shares of TGOD are trading 91% below its record high and is down 57% year-to-date.

In the second quarter, TGOD sales were up 58% on a sequential basis at $4.83 million. Canadian cannabis sales were up 309% at $2.72 million while hemp-derived product sales from Europe were $2.11 million.

The revenue growth was attributed to expanded distribution due to processing capacity and the launch of new product lines. Its net loss fell to $9.8 million, compared to a $63.7 million loss in Q1.

However, TGOD’s cash balance at the end of Q2 was $18.8 million, compared to its debt of $43 million and operating cash flow of a negative $32.4 million. This means the company will also have to raise additional equity capital while it focuses on lowering costs and improving the bottom-line.

The Foolish takeaway

Hexo and TGOD are companies that are part of rapidly expanding addressable markets. However, the widening losses and cash burn make the marijuana giants vulnerable as they dilute investor wealth when the companies raise equity capital.

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