3 Pot Stocks Robinhood Investors Should Avoid in 2021

Description

The millennial-focused brokerage free trading platform Robinhood has attracted millions of investors this year, and there have been some surprising favourites among its users. Several of the top 100 most popular stocks among Robinhood investors have been penny stocks that are more high risk than high quality.

We'll take a look at three Canadian pot stocks that should be avoided by Robinhood loyalists and Canadian investors, as we inch closer to 2021.

Hexo

Cannabis stocks such as **Hexo** (TSX:HEXO)(NYSE:HEXO) have been volatile in 2020. The COVID-19 pandemic resulted in a sell-off for Hexo and peers, while the recent presidential result south of the border drove shares prices higher in November. However, Hexo stock is down 35% year to date and might remain an underperformer in 2021 as well.

In the fiscal fourth quarter (ended in July), Hexo's recreational cannabis sales accounted for 83% of total revenue. Hexo's sales were up 76% at $27.1 million in Q4. The company attributed its revenue growth to Cannabis 2.0 products that include vapes, edibles, beverages, and concentrates.

However, its operating expenses widened to a massive $418 million in Q4, up from $110 million in the prior-year period due to impairment charges and new product launches.

Its EBITDA loss of $3.2 million suggests non-cash charges were huge and the adjusted loss was lower than the $28 million figure in Q4 of 2019.

OrganiGram

In fiscal Q4 of 2020, **OrganiGram** (TSX:OGI)(NASDAQ:OGI) reported net revenue of $20.4 million, up from $16.3 million in the prior-year period and $18 million in Q3. OrganiGram also reported a net loss of $38.6 million, which was higher than its prior-year period losses of $22.5 million, but narrower than losses of $90 million in Q3.

OrganiGram stock fell by 23% on November 10, as the company disclosed it will issue 32.5 million units that consist of one common share of stock and one half of a single warrant to purchase one common share at $1.85 per unit.

It further said one warrant is exercisable for three years allowing the holder to buy one share for $2.5. This issue meant OGI raised $60.1 million in gross proceeds. Several companies including Hexo and **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) have raised equity capital over the years that have diluted shareholder wealth massively.

OGI and peers are struggling with losses and negative cash flows, due to which they have to raise additional funds to meet working capital and expansion expenditures.

Aurora Cannabis

The final stock on the list is Aurora Cannabis, a company that has lost 60% in market value this year. Aurora Cannabis is also unprofitable and has focused on reducing its operating expenses to lower cash burn.

The company is also struggling with tepid growth in sales and has closed five production facilities to meet lower-than-expected demand. In 2020, Aurora Cannabis halted construction at two of its largest projects to ensure it has enough liquidity in the near term.

Similar to the other two companies on the list, Aurora continues to rely on equity infusion to shore up its balance sheet and its share count has increased by a staggering 11,800% in the last six years.

The Foolish takeaway

While the marijuana market continues to expand in Canada and the U.S., the three companies mentioned here need to improve profit margins to be attractive for investors. Even if they manage to grow revenue, negative profits will result in further dilution of shareholder wealth, dragging stock prices lower each time they raise equity capital.

CATEGORY

1. Cannabis Stocks
2. Investing

TICKERS GLOBAL

1. NASDAQ:ACB (Aurora Cannabis)
2. NASDAQ:HEXO (HEXO Corp.)
3. NASDAQ:OGI (OrganiGram)
4. TSX:ACB (Aurora Cannabis)
5. TSX:HEXO (HEXO Corp.)
6. TSX:OGI (OrganiGram)

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