3 Pot Stocks to Avoid Like the Plague in 2021

### Description

Investing in Canadian cannabis stocks remains a very risky proposition. While marijuana companies south of the border are on the road to profitability, Canadian pot stocks are grappling with mounting losses, massive write-downs, sluggish sales, high inventory levels, and a thriving black market.

Cannabis companies in Canada have burnt massive investor wealth in the last two years. We'll look at three stocks you need to avoid in 2021.



## Aurora Cannabis

Shares of Canadian pot giant **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) are trading 92.3% below its record high, despite a 31% gain in 2021 and returns of 121% in the last three months.

Last year Aurora Cannabis raised equity capital multiple times due to widening losses and almost doubled its outstanding shares. In fiscal 2020, the company booked a staggering $3.3 billion in net losses primarily due to goodwill write-downs.

Aurora Cannabis acquired several companies over the years at a hefty premium. However, these companies did not perform as per expectations. For example, Aurora acquired MedReleaf for a massive $3.2 billion in 2018 — a company that generated less than $45 million in sales per year.

Further, in 2019, Aurora estimated it would cultivate 500,000 kg of dried cannabis by mid-2020 and race to profitability by leveraging economies of scale. However, in fiscal 2020, it sold just 16,000 kg of marijuana per quarter.

Aurora is unlikely to turn profitable in the near term, which means it will have to keep raising equity and dilute shareholder wealth.

## Cronos Group

**Cronos Group** (TSX:CRON)(NASDAQ:CRON) shot to prominence after **Altria** purchased a 45% stake in it for $2.4 billion in December 2018. In Q3 of 2020, Cronos reported quarterly sales of $11.4 million, which were 104% higher than sales of $5.8 million in the prior-year period.

While Cronos has increased sales at a stellar pace, it is still reported a negative gross margin. This means Cronos is losing $1.5 million each quarter after considering the cost of labour and the cost of goods. Its operating loss also widened to $41.2 million in Q3, up from $30.7 million in the prior-year period.

Cronos ended the September quarter with $1.3 billion in cash, but it needs to improve profit margins going forward to win investor confidence. The company is also struggling to grow sales in the United States. Cronos reported $1.6 million in revenue from the U.S. but spent over $12 million in operating expenses to attain these sales.

## OrganiGram

The final pot company on the list is **OrganiGram** (TSX:OGI)(NASDAQ:OGI), a stock that is trading 80% below record highs. In the fiscal first quarter of 2021 (ended in November), OGI sales were down 23% year over year at $19.3 million. Comparatively, its gross losses expanded to $16.7 million compared to $11.2 million in the prior-year period.



OrganiGram's net loss stood at $34.3 million, significantly higher than the net loss of $863,000 in Q1 of fiscal 2020. OGI attributed these losses to inventory write-downs and asset impairments due to overexpansion.

OrganiGram just completed the expansion of its growing facility at Moncton, which increased the company's total manufacturing capacity. However, its still using 40% of this space, which suggests OGI impacted by lower-than-estimated demand.

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1. Cannabis Stocks
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2. NASDAQ:CRON (Cronos Group)
3. NASDAQ:OGI (OrganiGram)
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araghunath