



Cannabis Index Down 38%: Is it Time to Buy?

Description

The recovery after the 2020 market crash carried several sectors and stocks to new heights all the way into 2021. But the recovery-fueled growth was more sentimentally driven than based on the actual financial recovery of the sector and the underlying companies.

Some of the sectors, like energy and real estate, have been moving up slowly. Their post-pandemic growth seems more organic and realistic and might continue at a steady pace for the rest of 2021. But the sectors that were propped up on hope and investor sentiment are already seeing a normalization.

One of these sectors is cannabis.

Cannabis sector valuation 2021

The S&P/TSX Cannabis Index saw a rapid climb from the start of the year. The index rose to well over 137% in fewer than 40 days. But the 18 companies that make up the index couldn't carry on further, and their slow decline pulled the index down as well. Right now, it's down 38% from its 2021 peak. Does that mean cannabis stocks are worth considering?

The future of this green industry looks more promising now than it looked about a year ago. The Canadian cannabis industry is still plagued by complicated regulatory issues and slow-coming permits. These constrictions have prevented the sector from effectively competing against the significantly more flexible (and more prevalent) black market.

But the marijuana legalization wave is sweeping the world. [More U.S. states](#) might join the ranks soon. Mexico has recently legalized marijuana production for both medical and recreational usage. The country might emerge as a major competitor in legal cannabis production or a new market for Canadian producers to penetrate (especially the ones with a significant U.S. presence).

A cannabis stock worth considering

One cannabis stock you might consider adding to your portfolio if you believe that the sector is about to see a significant recovery phase is **Aphria** (TSX:APHA)(NASDAQ:APHA). The stock has managed to maintain a steady revenue growth for the last couple of years. The company's EBDITA and net income are far from ideal, but if the revenue keeps growing at a decent pace, the company might close the gap soon.

But another primary reason to consider adding Aphria to your portfolio now is that the company is expected to become the largest cannabis company [in the world](#) once its **Tilray** merger is finalized. And if the two of them combined start dominating the North American medical and recreational cannabis market and start consolidating large sections of territories once the black market Cannabis is driven off, investors might see significant profit-driven growth.

Foolish takeaway

If you had bought Aphria at the beginning of the year, you'd be sitting on over 144% unrealized growth right now, despite the fact that the stock came down 31% from its 2021 peak. Aphria is moderately overpriced now, and the stock has become relatively static; it's neither going up nor down at a significant rate. If the chances of it going up from here on are higher than it's going down, making a move now might be the intelligent thing to do.

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