



This Cannabis Stock Is Down 95% From its All-Time High: Why the Rout May Not Be Over

Description

With speculation around U.S. legalization growing, cannabis stocks have seen significant volatility of late. Indeed, this volatility is for good reason. A number of U.S. states have already legalized recreational cannabis. Accordingly, expectations of federal legalization seemed like a no-brainer with the “blue wave” we saw take hold in U.S. politics last year.

That said, it appears sentiment is starting to shift. Indeed, cannabis stocks have been roiled of late, as investors reprice this catalyst. Let’s discuss what this means for [cannabis players](#) like **The Green Organic Dutchman** (TSX:TGOD) right now.

An infrastructural loss

Like several other Canadian cannabis companies, TGOD was preparing for a growth spurt with U.S. legalization. Indeed, this company was positioning itself as a player with the potential to have export capacity to serve the United States. Its domestic production investments were substantial and were cheered by the market during previous bull markets.

However, domestic demand hasn’t really materialized to the extent TGOD expected. And with the U.S. export market increasingly looking out of reach, TGOD is yet another cannabis company to announce some significant writedowns.

The Green Organic Dutchman recently announced the sale of one of its Quebec facilities to Cannara Biotech. As a result of the deal, TGOD will receive US\$27 million in proceeds.

However, the company’s total investment in this facility was US\$229 million. Accordingly, the company will take a loss of more than US\$200 million on this project. Indeed, the 185,000 kg of capacity this facility was supposed to provide has gone up in smoke, along with the US\$200 million the company poured into this endeavour.

Indeed, such a drastic move is a sign of the times for the Canadian cannabis space. Companies are

scrambling to cut costs. If that means taking massive losses, so be it.

Accordingly, investors looking at cannabis players like TGOD now may be wondering what they're valuing. If these companies' existing assets get revalued, things could turn ugly for these stocks. Indeed, one can make the argument some serious mismanagement of capital has taken place in this sector. How much gets written down before it's all said and done is the big question many investors have right now.

Bottom line

The cannabis sector is a great example of a segment of the stock market that has seen valuations swing wildly. While some may argue that the selloffs we've seen have been as much of an overreaction as the parabolic spikes upward, this appears to be a true statement.

That said, the capital-allocation missteps of companies like TGOD stand as a reminder of what downside could be on the horizon for this sector. Indeed, over-exuberance for any asset class can turn out to be detrimental for long-term investors. In my view, this level of overexuberance still exists to some degree in the cannabis space today. Accordingly, further downside could be on the horizon for these stocks in the near to medium term.

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