3 Cannabis Stocks That Will Continue to Underperform the TSX in 2021 and Beyond

Description

Investing in cannabis stocks was seen as a lucrative way to beat the broader market once pot was legalized in Canada three years ago. However, since the start of 2019, Canadian marijuana stocks have been among the worst performers on the **TSX** for a variety of reasons. While the prospects of marijuana legalization at the federal level in the U.S. will be mouthwatering for cannabis investors to say the least, here's why I think these domestic giants will continue to trail the broader markets in the next year.

Aurora Cannabis

The first stock on my list is **Aurora Cannabis** (TSX:ACB)(NYSE:ACB). This marijuana giant is valued at a market cap of $1.65 billion and is trading 95% below its record high. Aurora Cannabis, similar to most other Canadian pot producers, is grappling with mounting losses and slower than expected revenue growth.

While its sales have risen from $55 million in fiscal 2018 to $278 million in fiscal 2020, its operating loss has widened from $80 million to $487 million in this period. This accelerating rate of cash burn led to severe shareholder dilution for ACB investors. Aurora Cannabis has raised equity capital several times in the last few years, increasing its outstanding share count from 1.3 million shares in June 2014 to 198 million shares right now.

Aurora Cannabis is now looking to focus on high-margin medical marijuana products that will help it improve profit margins. But as the company will reduce its product portfolio, its sales are forecast to fall to $255.5 million in fiscal 2021.

Cronos Group

The second stock on my list is **Cronos Group** (TSX:CRON)(NASDAQ:CRON), which is down 76% below its record high. Cronos stock has also declined 13% in 2021 and remains a high-risk bet for investors.

In the second quarter of 2021, Cronos Group reported a quarterly loss per share of $0.09, which was wider than its estimates of a loss of $0.07 per share. In the year-ago period, Cronos reported a loss of $0.19 per share. Its revenue in the June quarter stood at $15.62 million which was 13.6% lower than analyst forecasts.

Now, Bay Street expects Cronos sales to rise by 46% to $68 million in 2021 and by 83% to $125 million in 2022. However, the company's adjusted loss per share might widen from $0.21 in 2020 to $0.3 in 2022.

Cronos is also one of the most expensive cannabis stocks with a price to forward sales multiple of 41.

OrganiGram Holdings

The final pot stock on my list is **OrganiGram Holdings** (TSX:OGI)(NASDAQ:OGI). In the fiscal third quarter of 2021 ended in May OrganiGram's gross sales rose to $29.1 million, indicating a sequential growth of 51%. Its net sales were up 39% at $20.3 million. Its top-line growth accelerated in Q3 after OrganiGram's sales were down 37% year over year in fiscal Q2.

Despite its double-digit revenue growth, OrganiGram reported a negative gross profit in Q3 if we account for fair value adjustments. The Canadian marijuana producer has assured investors that it will improve gross margins going forward as the company has identified multiple cost-efficiency opportunities that will enhance its profitability profile.

During its Q3 earnings call, OrganiGram disclosed it has already launched 84 new products in the past year and plans to add 20 stock-keeping units by end of fiscal 2021. This ramp-up in product offerings will increase OGI's cost base and may result in higher inventory write-downs.

CATEGORY

1. Cannabis Stocks
2. Investing

TICKERS GLOBAL

1. NASDAQ:ACB (Aurora Cannabis)
2. NASDAQ:CRON (Cronos Group)
3. NASDAQ:OGI (OrganiGram)
4. TSX:ACB (Aurora Cannabis)
5. TSX:CRON (Cronos Group)
6. TSX:OGI (OrganiGram)

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araghunath