



Is the Rally in Cannabis Stocks Officially Over?

Description

Cannabis stocks remain among the top equities for investors looking for big wins in 2022. It's expected that the marijuana industry is likely to double in terms of its valuation within 2025. For those seeking immense [growth](#) and innovation, the cannabis sector remains an exciting place to invest.

That said, the rallies we've seen in 2017 and 2019 have fizzled out in a big way. Investors looking for growth have seemingly sought out other high-growth sectors.

Is the cannabis sector officially on the out with investors? Or can this sector roar back this year?

Let's take a look.

Massive jump in M&A activity hasn't boosted sales like investors expected

Last year marked one of the biggest years for M&A activity in the cannabis sector. Many of the largest cannabis producers sought out smaller targets, acquiring their way toward expanded market share. These moves were made in a bid to boost revenues and show top-line growth.

Unfortunately for many producers, this hasn't quite been the case.

Some cannabis giants are actually seeing revenue declines, as demand fails to materialize as expected. Yes, year-over-year growth in overall cannabis consumption remains high. However, in Canada, a large black market continues to plague legal producers — something regulators had hoped wouldn't be the case.

Whether it's a result of the relatively high tax rate on cannabis in Canada, or other factors such as quality, selection, and packaging restrictions, many consumers have chosen to stick with their dealer.

For Canadian cannabis producers, this has resulted in relatively poor results of late. **Canopy Growth** witnessed steady shrinkage in its revenue for the third consecutive quarter.

Quebec-based **Hexo** ([TSX:HEXO](#))([NASDAQ:HEXO](#)) invested over \$700 million to purchase three cannabis producers – Redecan, Zenabis Global, and 48North Cannabis Corp. But it announced it was shutting down the facilities of 48North barely eight weeks after the acquisition. It also announced the closing of one of the production facilities of Zenabis as well.

Additionally, **Aurora Cannabis** saw sales decline 7.2% on a year-over-year basis.

Where should investors go from here?

The recent results posted by top cannabis producers certainly don't signal a heck of a lot of near-term growth potential. Some experts believe that fast-changing consumer preferences are partly to do with this trend. However, as noted, the incredibly high regulatory bar placed on this sector in Canada is likely stifling consumer confidence in the legal cannabis sector.

For investors looking for buying opportunities in this space, valuations are certainly much more attractive today. Perhaps now is the time to buy, when no one else is considering this sector. That said, with a lack of catalysts, it's hard to point to what driver may take these cannabis stocks higher any time soon.

For now, I'm sitting tight on the cannabis sector. I think much of the M&A activity that has been carried out over the past five years has been at valuations that did not make sense. Accordingly, I think more writedowns (and more stock price volatility) are likely to be the common theme for 2022.

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1. Cannabis Stocks
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