Will Cannabis Stocks Ever Recover?

Description

Pot stocks had a terrible 2021. Sadly, the current year is turning out to be even more brutal for them so far. With never-ending snags and waning prospects of U.S. legalization, cannabis investors may not get a respite anytime soon.

Once investor-favourite **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) is trading below $5, its all-time lows. It has fallen 67% in the last 12 months, lagging peers. **Canopy Growth** (TSX:WEED)(NYSE:CGC) is no different. It has lost 80% in this period and is among the top losers.

No respite for pot investors

Top cannabis players tried to entice Canadian consumers with recreational marijuana derivatives in the last few years. Cannabis 2.0, which brought a flurry of vapes, gums, and beverages, failed to stabilize their top lines. Saturated markets and comparatively slow-growing demand led to a significant cash burn for these companies.

Aurora operates through two segments; medical and consumer cannabis. While the medical segment has seen decent growth recently and boasts a leading share in Canada, the recreational space has seen a steady decline in revenues.

The company has been working on operational and supply chain efficiencies to save costs. However, it has failed to achieve positive EBITDA for several quarters.

The only thing that’s consistently increased in the case of Aurora is its outstanding shares. Equity dilution is one major problem for its existing shareholders.

Aurora had a total of 10.8 million shares outstanding in 2016, but the number went up to 198.2 million shares by December 2021. Existing shareholders’ stake becomes less valuable when the company issues new shares.

Aurora could take years to turn its bottom line green. So, even though the stock has been falling, it does not make it attractive from a valuation perspective.

Although Aurora aims to turn EBITDA positive, driven by cost savings soon, a bigger market share and faster revenue growth could be necessary to create a meaningful value for shareholders.

Canopy Growth stock at all-time lows

Canopy Growth stock also had a similar movement of late. It is currently trading close to $9, its five-year lows. **Horizons Medical Marijuana Life Sciences ETF** is also trading at its all-time lows and has lost 60% since last year.

Canopy Growth aggressively launched cannabis derivatives in early 2020. Its Tweed Fizz beverages gained remarkable ground last year, while gummies under the brand name *Deep Space* are its recent edibles attraction.

In the last 12 months, Canopy Growth reported a net loss of $427 million on total revenues of $557 million. Despite the product innovation and a diversified offering, Canopy Growth is not far away from where Aurora is on the financial front. It is still a long way from reporting a net income.

Thus, U.S. legalization could open up an ocean of opportunities for these struggling marijuana players. At the moment, 37 states in the U.S. have legalized the medical use of cannabis, while 18 states have legalized recreational use.

Bottom-line

Because of the lower revenue growth visibility, the cannabis space remains a risky play at the moment. Even though they created massive value during 2016 and 2018, now it seems a distant dream for pot investors to see stocks repeat that history.

CATEGORY

1. Cannabis Stocks
2. Investing

TICKERS GLOBAL

1. NASDAQ:ACB (Aurora Cannabis)
2. NASDAQ:CGC (Canopy Growth)
3. TSX:ACB (Aurora Cannabis)
4. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media

6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. jguest
2. vinitkularni20

Category

1. Cannabis Stocks
2. Investing

Date
2025/08/24
Date Created
2022/02/23
Author
vinitkularni20