Should You Invest in Canadian Cannabis Stocks Like Canopy Growth in September?

Description

Most publicly traded cannabis stocks were trading near record highs when Canada legalized marijuana for recreational use in October 2018. However, in the last four years, cannabis stocks have burnt massive investor wealth for Canadians.

For example, share prices of **Aurora Cannabis**, **Canopy Growth** (TSX:WEED)(NASDAQ:CGC), **Cronos Group**, and **Sundial Growers** are down 99%, 94%, 88%, and 98%, respectively, from all-time highs. There are several factors contributing to the underperformance of Canadian cannabis stocks.

Canadian cannabis stocks are high-risk bets

The marijuana sector is highly regulated, resulting in the slow rollout of retail stores in major provinces, thereby impacting consumer demand. Further, black market sales continue to account for a significant portion of total sales in the country. In 2020, cannabis black market sales stood at $750 million, which is quite significant.

So, licensed marijuana producers overestimated demand and expanded production capacities at an accelerated pace. But oversupply issues resulted in high inventory build-ups, leading to million-dollar write-downs and significant losses.

Moreover, marijuana companies went on an acquisition spree when the cannabis sector was red hot during federal legalization. A lot of these acquisitions were overvalued and have now been written off via goodwill impairments.

Due to consistent losses and a high cash-burn rate, cannabis players raised equity capital several times, diluting shareholder wealth in the process. Back in 2014, Aurora Cannabis had 1.35 million outstanding shares. This figure grew to 185 million shares by the end of 2020 and is currently close to 300 million shares.

Is Canopy Growth stock a buy right now?

Last month, Canopy Growth announced its fiscal first-quarter results for 2023, and it posted a net loss of $2.08 billion. A majority of these losses were due to a goodwill impairment charge of $1.72 billion. It also reported cash outflows of $143 million in the quarter.

Its net loss stood at $5.23 per share, compared to earnings of $0.84 per share in the year-ago period. The company's net sales also fell to $110.1 million compared to $136.2 million in the prior-year quarter.

While Canopy Growth aims to ramp up cost savings in the next few quarters, its decline in top-line growth is making investors extremely nervous, given the company is losing market share when marijuana sales continue to grow.

A report from Statista expects cannabis sales in Canada to rise from $1.19 billion in 2019 to $8.62 billion in 2026. But Canopy Growth sales are forecast to increase from $546 million in fiscal 2021 to $555 million in fiscal 2024, which is a slower pace compared to the overall market.

The next 12 months might be equally brutal for cannabis investors as inflation rates are eating into household savings, impacting revenue growth for Canopy and its peers. Additionally, higher employee and input costs might drag profit margins lower.

In fact, Canopy Growth has reported a negative gross profit in three of its last five quarters, which showcases the extremely difficult environment in which it operates. There is a good chance for WEED's stock price to move lower in the next year.

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