

Will Cannabis Stocks Bleed More? MKM Weighs In

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This year, the cannabis sector has been underperforming the broader equity market. YTD (year-to-date), cannabis ETFs the Horizons Marijuana Life Sciences Index ETF ([HMMJ](#)) and the ETFMG Alternative Harvest ETF ([MJ](#)) have fallen 18.5% and 18.7%, respectively. During the same period, the S&P 500 Index has increased 15.2%. Increased operating expenses, concerns over vaping-related deaths and illnesses, and regulatory scandals have dragged cannabis stocks down.

Canopy Growth ([CGC](#)) ([WEED](#)), Aurora Cannabis ([ACB](#)), Tilray ([TLRY](#)), Cronos Group ([CRON](#)), and Aphria ([APHA](#)) have lost 19.9%, 18.0%, 65.9%, 17.9%, and 12.6% of their values, respectively, this year. Only HEXO ([HEXO](#)) has delivered a positive return of 6.6%. Will these stocks bleed more after MKM Partners' bearish outlook?

MKM Partners' bearish outlook for cannabis stocks

Yesterday, TheStreet [reported](#) that MKM Partners expects cannabis companies to miss analysts' expectations in their upcoming quarterly results. In a note, MKM Partners stated, "[The] next reported quarter will not show meaningful net sales acceleration," the report said. It added that higher expenses and lower-than-expected revenue could lower the companies' profitabilities.

As reported by TheStreet, MKM Partners analyst Bill Kirk predicted that cannabis companies need more time than the consensus estimates to reach positive EBITDA. However, he expects HEXO to report positive EBITDA in 2020, which matches with consensus expectations.

MKM Partners' bearish outlook led cannabis stocks to fall in early morning trading on October 2. However, most companies recovered later in the day after the CATO Institute published its survey results.

The CATO Institute's results

Yesterday, the CATO Institute [reported](#) the results of its 2019 Welfare, Work, and Wealth Survey, which it conducted between March 7 and March 13, 2019. The survey gathered online responses from 1,700 US residents older than 18. According to the survey, 55% of Americans supported the decriminalization of drug-related offenses, and 44% opposed it. The survey also indicated that 69%

of Democrats and 54% of Independents supported the decriminalization of drug-related crimes. However, 59% of Republicans opposed it.

The results appear to have boosted cannabis stock prices, especially for US-based companies. Yesterday, Curaleaf Holdings (CURA) ([CURLF](#)), MedMen Enterprises ([MMNFF](#)) ([MMEN](#)), Cresco Labs ([CRLBF](#)), Green Thumb Industries ([GTBIF](#)), and the Green Organic Dutchman Holdings ([TGOD](#)) ([TGODF](#)) were up 14.5%, 12.1%, 7.0%, 10.8%, and 4.9%, respectively.

Let's look at yesterday's stock performances for Canadian-based companies:

- Canopy Growth, which fell to a low of 27.25 Canadian dollars, recovered to close at 29.33 Canadian dollars, a rise of 1.7% from its previous day's closing price.
- In early morning trading, Aurora fell to 5.05 Canadian dollars. It recovered later in the day to close 2.2% up at 5.56 Canadian dollars.
- Aphria recovered from its low of 6.44 Canadian dollars to close 2.4% higher at 6.86 Canadian dollars.
- Cronos Group stock fell to a low of 11.15 Canadian dollars. However, the company recovered to close at 11.81 Canadian dollars, a fall of 0.4% from its previous day's closing price.

Cannabis 2.0

Later this month, Canada is expected to legalize the sale of cannabis-derived products, including vapes, edibles, and beverages. We expect the second phase of legalization in Canada, also called Cannabis 2.0, to boost cannabis companies' stock prices. Many companies are already getting ready for Cannabis 2.0.

In June, Aurora [announced](#) that it would partner with PAX Labs to introduce the PAX Era device in the vape category. It also announced its launch of a portfolio of vape products post-legalization. The company has also expanded its production capacity via the opening of its Aurora Sky, Aurora River, and Aurora Vie facilities. For more on Aurora's Cannabis 2.0 preparations, read [Cannabis 2.0: Aurora Cannabis Gears Up for Edibles Market](#).

During its first-quarter earnings call, Canopy Growth announced that it would be introducing around 15 SKUs of vape devices in December. Last month, Canopy's CFO, Mike Lee, announced that the company was building a [production facility for infused beverages in Smiths Falls, Ontario](#). For more on Canopy Growth's initiatives, read [Canopy Growth: Getting Ready for Cannabis 2.0](#).

In June, Aphria estimated that vapes and concentrates could form 30% of the recreational cannabis market by 2021. It recently [agreed to a partnership with PAX Labs](#) whereby it will provide cannabis extracts for PAX Labs' vape products. The company plans to design these products for both medical and recreational purposes.