Canopy Growth Corp.: The Calm Before or After the Storm?

Description

After reporting earnings almost two months ago, shares of **Canopy Growth Corp.** (TSX:CGC) seem to have found some sort of consistency following the euphoria which took the stock to over $17 per share for a brief time. With earnings expected to be released during the last week of February, we may be headed towards a total breakdown in the share price.

As many will remember, Canopy Growth Corp. reported a profit of almost $0.05 per share, but the cash from operations (CFO) was negative. CFO was approximately -$0.078 per share. Clearly, the company is not yet profitable, but it seems to have no problem spending money.

Remember, CFO does not include large capital expenditures for expansion. Assuming the company wants to expand, the money spent on acquisitions will fall into the financing section (CFF) of the cash flow statement, whereas the investments in property, plant, and equipment (PP&E) will fall into the investing section (CFI) of the cash flow statement.

What we want to be looking for

Given the difference between the CFO and profit was due to a revaluation of the inventory in the past quarter, normal expectations will be not only be negative CFO, but the company should also be posting a loss. Retail investors who have made up a large amount of the cash inflow in the past few months may want to hit the panic button when they realize their investments are actually losing money.

Investors should not only be looking at the bottom line, but in the case of any high-growth company, it is important to see the total revenue and revenue per transaction or revenues per client moving upwards. With each new client, Canopy Growth Corp. must take the time to “acquire” the client, meaning there is a cost to sell the product for the first time.

With the next earnings release, it will be pivotal to dissect the financial statements to understand if momentum is actually on the side of the company or if there is more window dressing going on in this quarter than in the last one.

What the technical indicators are telling us

Although we never make the decision to invest or not based on technical indicators alone, it is important to consider them to determine what the market sentiment as a whole may be telling us. In the case of Canopy Growth Corp., the shares have been trading sideways over the short term. Currently, the 10-day and 50-day simple moving averages (SMAs) are in line with the stock price, while the 200-day SMA is lagging far behind.

Since the stock has such a large jump in price a few months ago, the longer-term averages will take a much longer time to catch up to the stock price, showing either a very long-term bullish trend or allowing a lot of room for the stock to fall while still maintaining positive momentum.

Barring an incredible surprise in the next month, investors should remain cautious around earnings season.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

1. Msn
2. Yahoo CA

Category

1. Investing

Date
2025/08/23
Date Created
2017/01/31
Author
ryangoldsman