What Should Investors Expect From Canopy Growth Corp.?

Description

Since the middle of February, **Canopy Growth Corp.** (TSX:WEED) has returned over 32% of its value to the market — a massive haircut compared to the insane increase the company experienced during 2016. But Canopy is certainly on to something. Countries around the world are beginning to rethink their hyper-criminalization of marijuana, realizing that it's a colossal waste of money — not to mention that it has medicinal benefits that are far safer than opioids.

So, what should investors expect from Canopy in the next year and over the coming years?

In the short term, Canopy is going to continue struggling. In its first-quarter fiscal 2018 results, the company reported that it had generated $15.9 million in revenue, a 127% increase compared to Q1 2017. Even quarter over quarter, the company's revenue is growing, which is a positive. Its net loss in the quarter was $4.4 million, or $0.03 per share. Its net loss in Q1 2017 was $3.9 million but was higher on a per-share basis at $0.04.

Revenue was up by 127%, but total operating expenses were more than three times greater than they were a year ago — up to $24 million from $7 million. Sales and marketing plus general and administration expenses ate into the company's revenue significantly.

A big driver of the company's relatively small loss was the fair-value changes it experienced. This is the value of assets on the books — in this case, the biological agents that Canopy sells. The problem is that fair-value gains are estimates, and they can swing in different directions. Therefore, this quarter, the company's fair-value changes were positive; however, in other quarters, they have been negative, which significantly impacts earnings.

This is the short-term picture for Canopy: it's a company that is burning through cash as it strives to continue growing. I don't see a near-term future where the company generates a profit, which likely will scare away many investors.

However, the long-term picture for Canopy is a bit harder to predict. I call this period of time its market share expansion strategy. It needs to move as quickly as possible to acquire as much market share because as other competitors begin to launch, they'll eat into market share. And those competitors are coming … as of March 31, there were 414 applications in progress.

The coming catalysts for Canopy are two-fold. First, Canada will legalize marijuana. It’s not that difficult to transition from a medical marijuana company to one that sells recreational marijuana. Despite what some investors might think, this is a few years away. The second catalyst is its expansion into Germany. In the quarter, Spektrum Cannabis GmbH, Canopy’s wholly owned subsidiary, passed the first stage of its application to become a producer of medical cannabis.

And that’s the real strategy for Canopy. The company boosted revenue by 127%, and that’s exciting, but it is still very much a start-up, even if the market cap is egregiously overpriced. Earning a profit of $15.9 million is a pittance.

When the world moves toward legalization of marijuana, Canopy will be in a prime position to attack.

Nevertheless, Canopy is a risk. Anytime you invest in a start-up, you risk losing it all. Further, there is inherent risk of dilution since the company continues to raise funds. I’m not a buyer, but the time may come when Canopy will be a great pick-up. It’s worth keeping an eye on.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/08/17
Date Created
2017/08/23
Author
jaycodon