



Strong Revenue Growth for Canopy Growth Corp., but the Best Is Yet to Come

Description

Canopy Growth Corp. ([TSX:WEED](#)) released its third-quarter results on Valentine's Day, which reinforced its position as a market leader. The world's largest medical marijuana company [more than doubled its revenue](#), driven by strong growth in its patient base, more shipments to Germany, and more sales of extracts.

Sales are rising fast and should rise even faster in 2019

The company reported revenue of \$21.7 million in the third quarter, up from \$9.8 million a year ago. That is almost twice the revenue of its closest competitor, **Aurora Cannabis Inc.** ([TSX:ACB](#)).

A strong increase in patient numbers, higher sales of oil and extract products, as well as increased shipments in Germany contributed to this fast rise in sales. The company added 6,000 patients during the quarter, bringing its patient count to 69,000.

The marijuana producer was able to sell more cannabis at higher prices. Indeed, Canopy sold 2,330 kilograms at an average price of \$8.30 per gram in the third quarter, while it sold 1,245 kilograms at an average price of \$7.36 per gram in the same quarter last year.

Tim Saunders, Canopy's CFO, explained that the higher average price was due to an improved mix of oil products and to a higher selling price in Germany, where medical cannabis was sold at a price of \$12.61 per gram on average.

Because Canopy is selling products in Germany, where prices are over \$12 a gram, its revenue should continue to beat its competitors in the near term, as many of them are selling in the \$8.50 range.

In fiscal 2019, which will be the first year with full-year sales from recreational cannabis, Canopy's sales are estimated to grow by 258% to \$306 million from the estimated \$85 million in fiscal 2018.

The Smiths Falls-based company posted a net income of \$11 million, up from \$3 million a year ago. However, its adjusted EBITDA declined to a loss of \$7.1 million, as the company is accumulating inventory ahead of recreational marijuana's legalization.

Saunders believes that the adjusted EBITDA should become positive in the second half of the year following legalization, as increased sales will reduce inventory.

Higher-margin products could be introduced in the next few years, including marijuana-infused drinks that Canopy is [working on with Constellation Brands Inc.](#)

Canopy is signing supply deals one after the other

Canopy was among the six companies that announced supply deals with the Société des alcools du Québec (SAQ) on February 14. The SAQ is a government-run agency that will have a monopoly on recreational sales online and in retail stores.

Canopy signed a deal to deliver 12,000 kilograms of cannabis annually to the SAQ. The other companies to secure supply deals with the SAQ were Aurora Cannabis Inc., **Aphria Inc.**, **MedReleaf Corp.**, **Hydrophocary Corp.**, and Tilray.

Last Friday, Canopy won a joint bid to run cannabis stores in Manitoba alongside Winnipeg cannabis grower Delta 9.

Distribution in Manitoba will be handled by the province's Liquor, Gaming, and Cannabis Authority, but cannabis will be sold in private stores, unlike in Quebec and Ontario, where cannabis will only be sold through stores run by their provincial liquor boards.

Manitoba is the fifth province with which Canopy has signed a deal to supply recreational marijuana, after Newfoundland, New Brunswick, P.E.I., and Quebec.

What about the stock?

If you are interested in investing in this giant cannabis producer, I think you should initiate a position in Canopy before the legalization. Sales are expected to rise fast, and earnings should become positive afterward, which will surely push up the share price.

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Date

2025/08/21

Date Created

2018/02/19

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