



The Fate of the Pot Industry Lies With Canopy Growth Corp. (TSX:WEED)

Description

It's been a wild earnings season. I can't remember the last time I've seen so many double-digit moves. It all started with **Facebook's** 20% plunge a few weeks back. **Shopify** followed suit, as did stalwarts **Magna International** and **Canadian Tire**.

On the flip side, positive earnings launched **Open Text** and **goeasy** to [new heights](#). It's the significant volatility that makes this week particularly important for the pot industry. Industry leader **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) is expected to report earnings after the market close this coming Tuesday, August 14.

Has the bubble popped?

The entire pot industry is under fire. Over the past few months, the TSX Marijuana Index has plunged, and it is now down 49% year to date. Canopy has managed to buck the trend and has outperformed its closest competitors.

It's not even close. Whereas Canopy is in positive territory, having returned approximately 10% this year, **Aurora Cannabis** and **Aphria** have each lost half of their value.

The general cannabis euphoria from late 2017 and early 2018 has subsided, and a poor showing by Canopy can be devastating to the industry. Further complicating matters, history is not on investors' sides.

Poor fourth-quarter results

In June, the company posted a massive miss on fourth-quarter earnings and revenues. The markets were expecting Canopy to post a loss of \$0.07 per share. It posted a much larger loss of \$0.31 per share. Likewise, revenues came in lighter by \$1.39 million, approximately 6% below expectations.

Canopy still hasn't recovered post-Q4 earnings, and its share price is down 8% since the release. In fact, it marked the next secular downtrend for the entire industry. Be warned: if Canopy misses estimates next Tuesday, the entire industry will suffer.

Growth expectations

The fourth quarter wasn't all bad; revenues grew by 55%, and legalization was just around the corner. Unfortunately, the markets are very hard to please. If there is any sign that the company's growth is not as robust as the market expects, we can see significant downside pressure.

Case in point: Shopify posted great earnings and beat estimates. However, because growth is showing signs of slowing, the stock was punished.

On the flip side, if Canopy meets or guides to the upside, it could be the catalyst the industry desperately needs.

Make no mistake; analysts have a very hard time estimating earnings and revenues for pot stocks. It is [an industry unlike any other](#), where speculation is the primary investment thesis. At this point, any expert thesis on recreational marijuana is but a guess based on current information — information that is changing on a daily basis.

Regardless of the outcome of Canopy's earnings, expect the stock and industry to make big move on Wednesday.

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