Canopy Growth Corp. (TSX:WEED) Results Reveal Areas of Concern

Description

It seems like the wild movements of marijuana stocks can make an article about them outdated as soon as it's posted. But if we look beyond short-term price movements to the long term, or at least the medium term, things do not change from day to day.

Let's take a closer look at **Canopy Growth** (TSX:WEED)(NYSE:CGC), its latest earnings, and its recent stock price movements.

Canopy Growth stock is up 42% year to date, but down 38% since its summer highs, so volatility rules.

Canopy stock was down more than 10% on the day of its second-quarter results release, which came in below expectations on both the revenue and earnings fronts.

Revenue increased a disappointing 33% in the quarter, and the company's net loss of $1.52 was significantly worse than expectations that were calling for a loss of $0.11 amid significantly higher expenses to fund growth plans and a lower-than-expected selling price.

Digging a little deeper, we can see that operating expenses increased at a far faster pace than the revenue increase. Total operating costs rose 225% to $72 million.

The largest expense was share-based compensation, reflecting such things as shares issued in acquisition transactions as well as the exercise of options granted. All said, this resulted in big dilution of current shareholders, as shares outstanding increased 22% to 200 million.

But other operating expenses, such as sales and marketing expenses and general and administrative expenses, increased significantly as well, showing a 175% and 161% increase, respectively.

Again, this is all typical of growth companies.

The point here is that investors must keep these realities in mind before bidding these stock prices up so much that they become so highly valued and in a way that dismisses these risks and realities.

Let's review two of the other big marijuana stocks to see the pattern.

Aurora Cannabis (TSX:ACB)(NYSE:ACB) stock price has fallen 9% since it reported its first-quarter fiscal 2019 results that, on a revenue basis, at least, were pretty strong — more than triple year-ago levels.

So, why is the stock down so much since then?

To find the answer, we have to dig down a little deeper into the results.

While net income saw a massive increase this quarter, the underlying business of marijuana operated at a loss.

Aphria (TSX:APHA)(NYSE:APHA) reported its latest quarter results in October, and while revenue more than doubled, the stock has fallen 33% since this report.

EPS of $0.09 was 10% lower than last year, despite net income coming in 54% higher, a reflection of a significantly higher number of shares outstanding — dilution in action.

Furthermore, a big portion of net income was due to a gain on long-term investments and, as such, has nothing to do with the actual business.

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