Is It Time to Sell Canopy Growth Corp (TSX:WEED) Stock?

Description

The past month has not been kind to **Canopy Growth Corp** (TSX:WEED)(NYSE:CGC). After losing 36% of its value in the month after legalization, the company posted disappointing Q2 earnings, cementing a lacklustre fall season. After all the hype surrounding this company in the lead up to legalization, it's hard not to see the past month as a "canary in the coal mine" foreshadowing bad things to come.

Nevertheless, Canopy is still a growing enterprise and a dominant player in the cannabis industry both by market cap and revenue. Is it really best for Canopy investors to cut their losses when this company seems to have so much ahead of it? First we need to look at Canopy's Q2 results to see what they really mean.

Disappointing earnings

There were two main disappointments in Canopy's Q2 earnings report: one, revenue growth slowed to 33%; and two, the company's net loss grew to $330 million. That second figure was particularly shocking to many people, as the company earned just $23 million in revenue in the same period. While the company was seeing its revenue growth slow by almost a half, it increased its spending dramatically.

Canopy's mounting costs are often justified as being investments in future growth. The idea is that the company is aggressively investing in infrastructure that will make it the world's #1 cannabis producer–or at least #1 in 11 countries. Sure, in the short term, building new grow sites and supply chains worldwide is going to run up some costs. But eventually all the grow sites will be built and paid for, and from that point on Canopy will practically be printing money… Right?

Well, not exactly.

The problem is that Canopy's Q2 results show that the company's investments aren't kicking revenue growth into high gear. 33% growth would be good for most companies, but not if expenses are up several hundred percent across the board. And that's exactly what we saw in Canopy's Q2 report.

If you look at the expenses breakdown, you can see that costs are up exponentially in every segment of the business, not just investments. For example, share-based compensation costs are up 800%. This is not the mark of a company that's turning its spending into profit.

The silver lining

On the whole, Canopy's recent performance has been disappointing.

But there may be a silver lining.

Canopy's Q2 earnings covered a period ended September 30. This means that only a few early pre-orders of legal cannabis were factored into the report–a tiny fraction of the company's total sales. In Q3, we'll be seeing a report that factors in a full three months of legal cannabis sales, and its results may be better.

In fact, it's possible that these Q3 results could even justify what happened in Q2. Maybe all those ballooning costs in Q2 were really just in preparation for a big earnings blowout we're about to see in Q3, which will silence naysayers like me once and for all. Maybe.

For now, though, I think most investors would be better off avoiding Canopy Growth Corp.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

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

Category

1. Investing

Date
2025/08/12
Date Created
2018/11/21
Author
andrewbutton