Could Canopy Growth Corp (TSX:WEED) Stock Hit $100 In 2019?

Description

Canopy Growth Corp (TSX:WEED)(NYSE:CGC) is Canada's best-known marijuana stock. But in terms of financial results, it's been far from the best performer. While competitors like **Aurora Cannabis Inc** have it beat on growth, others, such as **CannTrust Holdings** have achieved operating profits faster. Nevertheless, Canopy is still the #1 cannabis stock in terms of pure revenue: its sales surpassed Aurora's by over $20,000,000 in its most recent quarter.

For a long time it appeared that Canopy was destined to soar to $100 by the end of 2018. But when markets started tanking in October, Canopy was hit harder than the average. When the year ended, it was nowhere near the $100 mark; in fact, at just $37, t was close to erasing its gains for the year.

But a new year means new opportunities. With Canopy's next quarterly report coming out in February, it won't be too long before we see how legalization impacted the company's earnings. It's still within the realm of possibility for Canopy to hit $100 by the end of this year. But first, we'll need to look at the company's growth.

Growth

Growth was a major sore spot for Canopy in its most recent quarter: revenue grew at just 33% year over year, while earnings slid from a small $1.6 million loss to a colossal $300 million loss. The 33% revenue growth might seem high, but remember, Canopy is a start-up. For companies that are a few years out from their IPO, double-digit revenue growth is standard. So 33% is not as frothy as it looks (it's also a much lower growth rate than most of Canopy's competitors posted).

Financial soundness

In terms of financial soundness, it's a mixed picture for Canopy. Although the company's total assets (around $3 billion) vastly outstrip liabilities and give the company a lot of equity, the company diluted itself a lot to get those assets, so each shareholder owns only a small fraction of the company. Other financial metrics like profit margin and return on equity are negative, because of the company's persistently negative earnings.

My advice? Wait for February earnings

For Canopy Growth Corp, future earnings are everything. In the past, the company persistently lost money, so the question of whether the stock is worth its price–let alone a much higher hypothetical future price–depends on how earnings go in the future.

The big question mark here is how legalization will impact the company's fortunes. We got a big test case this past fall when cannabis was fully legalized nationwide. However, as of now, there has been no earnings report released that included three full months of legal cannabis in its revenue statement, but that's all about to change. On February 13, Canopy will release its earnings for the quarter ended December 30, 2018, which will tell us whether legalization really provided the company with the massive sales boost it will need to deliver earnings that could justify a $100 stock price. For now, it's best to sit back and wait, as it's impossible to tell what the future holds for this company.

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