



Why Canopy Growth Corp (TSX:WEED) Gained 33% Last Week

Description

Canopy Growth ([TSX:WEED](#))(NYSE:CGC) is on the rise again.

After nearly erasing its 2018 gains late in the year, the company rose 32.58% in the first full week of January in a dramatic rise that echoed the months leading up to marijuana legalization. Recently, Canopy has been the subject of criticism, owing to its slowing revenue growth and rising losses, which reached [over \\$300 million](#) in its most recent quarter. But now, with post-legalization earnings on the horizon, investors may be getting excited about the company again.

The marijuana industry is known for its volatility. Canopy itself has a beta coefficient of 2.42, which is more than double the TSX average. So, one sharp upswing doesn't necessarily mean the stock is back on the road to \$70. Still, it's worth investigating whether Canopy will make a comeback. To get to the bottom of that, we need to understand why Canopy rose last week. We can start by looking at what happened to the broader TSX index.

TSX recovery

The most obvious reason Canopy rose last week is the simple fact that the TSX rose as well. Stocks have a tendency to move together, and although it doesn't always work out that way, it does more often than not. Last week, the S&P/TSX Composite Index gained about 3% after losing 11.6% of its value in 2018. That's not nearly as dramatic as Canopy's rise, but it may (partially) explain it.

Volatility

As previously mentioned, stocks — especially stocks on the same index — tend to move together. However, when the market moves, higher-volatility stocks will move more than the market average. A stock with a beta coefficient of one moves as much as the market average; lower-beta stocks move less, while higher-beta stocks move more. Canopy's high beta predicts that it would move more than the market. That said, a 2.42 beta coefficient wouldn't predict a percentage gain over 10 times that of the index. So, there's still more to this story.

Earnings on the horizon

A final factor that may explain Canopy's dramatic rise is the fact that the company has a quarterly report on the horizon. Canopy's Q2 earnings were [widely regarded](#) as a disappointment, with 33% revenue growth (down from around 60%) and massive net losses. At the same time, that report only included one very small test shipment of legal cannabis, as its cutoff date was September 30 — before legalization. Legal pot was widely expected to boost cannabis growers' revenues, and on February 13, Canopy will be releasing a report that includes three full months of legal cannabis.

That could be a major boon to the company, although it's not guaranteed: **Aphria's** first post-legalization earnings statement was generally regarded as a disappointment. But Canopy is not Aphria. With more growing capacity than any other cannabis producer and its own chain of Tweed-branded stores, the company may have captured more sales last quarter than any of its competitors.

If that turns out to be correct, investors who drove up Canopy's price last week may be rewarded in the future.

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Date

2025/08/27

Date Created

2019/01/14

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