Canopy Growth Corp.’s (TSX:WEED) Revenue Soars in First Quarter Since Pot Legalization

Description

Canopy Growth (TSX:WEED)(NYSE:CGC) released its third-quarter results for fiscal 2019 on Valentine’s Day, which saw a strong surge in revenue following the legalization of recreational marijuana four months ago.

Big revenue surge, shift to profitability

Canopy reported solid revenues of $83 million for the third quarter ended December 31, 2018, up 256% from the same quarter a year earlier. Analysts were expecting a lower revenue of $81 million.

What contributed to this revenue surge is the legalization of recreational marijuana on October 17. More than 70% of the 10,102 kilograms of cannabis sold in the quarter were destined for recreational marijuana users.

Canopy incurred a net operating loss of $157 million, as the company spent to increase operations, capacity and hiring in order to get ready for the new cannabis regime. After a surprise net loss of $330 million in the last quarter, the company is shifting to profitability, posting a net income of $74.8 million or $0.22 a share.

With more than $5 billion in cash, Canopy is well equipped to continue spending so it can get a larger market share in the rapidly growing cannabis market.

Sales are expected to reach $805 million in 2020, while earnings are expected to amount to $0.07 per share in 2020.

Canopy is well positioned to become a global titan

A report by CIBC World Markets says that only a few marijuana companies will survive, and that Canopy has the highest chances of becoming a global titan.

Why so? According to CIBC's report, Canopy has billions in the bank, has a best-in-class management team, the potential to make breakthroughs with new medical products, and global aspirations.

As the largest and most well-known cannabis company in the world, Canopy also has a big advantage on global competitors. The cannabis producer has a big production capacity of 4.3 million square feet.

Canopy has been acquiring other companies at a fast pace and expanding internationally, with operations in 15 countries.

The company started by growing medical marijuana and branched into recreational cannabis.

However, the company still retains a strong focus on medical cannabis, where management see global opportunity and the potential to develop cannabis products to help with sleep, pain treatment, mood therapy, and even anxiety treatments for pets.

Constellation Brands, a U.S. beer, wine and spirits company, invested $5.2 billion into Canopy to develop cannabis drinks — an investment should put Canopy in good position to benefit from moves by nine states, including Constellation's home base of New York, toward legalization.

Canopy plans to launch cannabis drinks this year, which the company promises will be healthier alternatives to alcohol, with no hangover and containing low calories.

Earlier in January, Canopy announced its entry into the fledging [U.S. hemp] industry with an investment of $150 million in production facilities in the state of New York — a position that has now been increased to $500 million for hemp operations across the United States.

Is it time to buy some share of Canopy?

While Canopy's stock is up almost 70% year-to-date, trading around $62, it's still far from the all-time high of $73.75 it reached on October 15. While I think Canopy is one of the best cannabis companies, I don't think it's time to buy shares. The valuation is very hefty, with a forward P/E over 900.

Canopy has a [huge market cap] over $20 billion, but a lot of that money is speculation capital, which could drop quickly following negative news.

Recreational cannabis has been legal in Canada for only four months, and there have been problems to supply enough cannabis to meet demand. Once these supply issues are resolved, you can expect to see significant top-line growth, but there will surely be a lot of volatility in pot stocks prices in the meantime.

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sbchateauneuf