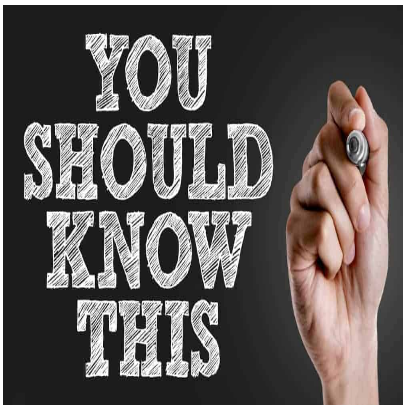

Canopy Growth Corp (TSX:WEED): Soaring Revenue With Mounting Losses

Description

The marijuana industry is moving into another quarter of explosive growth, and with the initial phase of legalization behind them, marijuana companies (and stocks) are moving upwards and onwards.

Are you one of the investors who has stayed on the sidelines due to the risk inherent in these stocks?

If you are, don't be discouraged. Protecting your portfolio from downside risk is a very worthy goal, and although capital preservation sounds boring, we know it's worth it when the downside hits.

So, **Canopy Growth** (TSX:WEED)(NYSE:CGC) reported its third-quarter fiscal 2019 results yesterday that had investors bidding up Canopy Growth's stock price by almost 5%.

Kilograms sold increased a whopping 334% and net revenue increased 282% versus the prior quarter, as the average selling price declined 12%.

But does the stock warrant a spot in your portfolio?

Mounting losses

We can see that losses continue to mount, as expenses increased dramatically to fund the company's growth plans. For example, SG&A expenses represented 54% of net revenue versus 43% last year.

While this is to be expected, as the company is embarking on a very aggressive growth strategy, it is nevertheless something investors should watch, as it is falling to the bottom line, reducing earnings, and cash flow numbers.

Management is fully expecting margins to rise, as production trends higher and as economies of scale are increasingly achieved.

Also, share-based compensation expense increased dramatically, both related to acquisitions and internal compensation.

So, the company's loss from operations was $157 million, and for the first nine months of this fiscal year the company had a loss of $1.45 per share.

Shares outstanding increased significantly, and net gain on the fair value of assets increased the earnings results once again.

Marijuana stocks continue to be highly volatile; they are not for every investor. We should sell and take profits when the opportunity arises, as it has already in 2019.

Lack of visibility

The stock and the industry are in their infancy and, as can be expected, they are still lacking visibility, creating big risk for investors and all stakeholders involved.

As an illustration of the risk inherent in the stock, we can look at analysts' earnings estimates for the next couple of years, which vary considerably.

In fiscal 2020, the range of EPS expectations is from as low as a loss of $0.38 to a profit of $0.56.

So, it is difficult to value marijuana stocks, and if we attempt to value Canopy on a P/E basis, we quickly see that these multiples are sky high and as lofty as ever.

We are also seeing more partnerships and deals, which are increasingly giving the marijuana industry more credibility.

Canopy is one of the leading marijuana stocks, with one of the most extensive global presences, with operations in 12 countries across five continents.

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