Is Canopy Growth Corp. (TSX: WEED) Headed for a Crash?

Description

If you're looking for a high-growth stock, would you be particular about the industry to where the stock belongs? Since last year, marijuana stocks have been the talk of the town. Even the shares of least known companies were boosted by a change in name to reflect a bit of link to the cannabis sector.

Among all the weed stocks, **Canopy Growth Corp.** (TSX:WEED)(NYSE:CGC) appears headed for unprecedented growth. Disappointingly, analysts' forecasts were off the mark as most cannabis stocks fell sharply in late 2017. But after Canopy Growth's recent earnings report, should investors be enlivened?

An intriguing stock

Canopy Growth is a paradox. At least on paper, the company is strong deep down yet fundamentally shallow. The company's percentage increase of 280% year over year in the last quarter of 2018 may be striking. From the sales perspective, Canopy Growth is the industry's top seller, which makes it fairly attractive.

However, revenue will be better appreciated if earnings come up to par. Canopy Growth netted $75 million income from sales of 7,300 kilograms. Further sleuthing revealed that the figure could have been smaller were it not for the financial adjustments. Hence, the financial image is still wanting in shareholder value.

Factors affecting tangible growth

If you have an eye for details, you'll notice that a lot of factors are spoiling the performance. The company's gross margin went down $4 million versus last year, which means Canopy Growth was beset by higher inventory costs during the quarter in review. The lower gross margin negated the increase in sales.

The Canadian cannabis producer also needed to issue an additional $5 billion in shares. More than

$97 million in cash went directly to operating activities while investing activities used up $1.4 billion. In other words, Canopy Growth is spending cash at a torrid pace.

And talking of speed, operating expenses grew faster than sales. A year ago, it was only $43 million before ballooning to $170 million. Mind you, the $46 million general and administrative costs incurred dwarfed all the company's operating costs.

Given the bloating expenses and lower margins, Canopy Growth was fortunate to even report $75 million net income. Truth be told, it was the other income of $235 million that painted a rosy picture. There was a $186 million fair value gain resulting from changes in the fair value of convertible notes.

Not yet time to celebrate

WEED is trading at $62.81 as we write, which is 59.9% higher than the price on the first trading session of 2019. But keep in mind the stock was already doing $73.75 two days before *The Cannabis Act* was enacted. The trajectory after the legalization should have been $100; no one expected Canopy Growth to sputter.

Perhaps it's better to hold your horses before betting on Canopy Growth. The company needs a few more strides. That might entail a couple of quarters. For restive investors, you can monitor the stock day-to-day if you have the time.

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