Could Canopy Growth Corp (TSX:WEED) Fall Below $50?

Description

The hype for marijuana stocks has been strong in recent years. However, not everyone is sold on their ability to meet the expectations that Wall Street has set for them. With a lot of hurdles present in the cannabis industry and many hiccups since legalization, it hasn't been smooth sailing.

Canopy Growth Corp (TSX:WEED)(NYSE:CGC) has been no exception to that with the company initially hoping to open many stores in its home province to now being very limited as a result of restrictions Ontario has placed on producers. It's but one example of where things haven't gone according to plan, and it's the big producers that are going to be feeling the worst of it.

Analysts have started to notice this as well. Last week, **Scotiabank** analysts cut their estimates for Canopy Growth's sales by as much as 26% on concerns that expectations have been too optimistic. The analysts noted said that they "expect aggregate calendar year first-quarter 2019 cannabis revenue to be below fourth-quarter 2018, while the street is looking for a 35 per cent increase."

It wouldn't be the first time that we learned estimates were too high. When Canopy Growth released its Q2 results in November, it missed expectations by a mile and came nowhere near even the low end of what was being projected. And it hasn't been the only company, as earlier this year, **Aurora Cannabis Inc** gave investors an early warning that its sales for the upcoming quarter were going to be much lower than expected.

Part of the problem is that cannabis is a new industry, and with sales previously being in the black market, getting accurate numbers was always going to be a challenge. And with supply issues a big impediment to the industry's growth, resulting in a limited amount of stores being open, it has contributed led to softer sales for the recreational market as well.

Is Canopy Growth headed lower?

Canopy Growth's share price has been dropping over the past few weeks, and while there may be a temptation to buy the dip, there's a very real possibility that this could be the start of a bigger correction.

From having strong support at $60, Canopy Growth has seen investors lose faith in the stock, as support levels have been shifting down and even dropping below $50 doesn't seem unrealistic at this point. Ultimately, it'll come down to the company's next earnings report, which will dictate how much of a correction (or rally) we'll see from the stock.

If Canopy Growth knocks it out of the park, it could send the stock back up in a big way. However, given the way things have gone, I wouldn't count on that happening. The other problem is that another big miss could have devastating results not only the stock, but also on the industry as a whole, as investors may lose confidence in any sort of projections going forward.

Now that analysts are becoming more bearish on the industry, it could be a sign that the tide is turning — and even beverages may not be able to save the stock now.

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