Canopy Growth Corp. (TSX:WEED) Skyrockets on Another Groundbreaking Deal

Description

Canopy Growth Corp. (TSX:WEED)(NYSE:CGC) was rallying almost 10% at the time of writing last Thursday, the day of the announcement of its plan to acquire leading U.S. cannabis operator, Acreage Holdings.

In an attempt to keep its first mover advantage and extend it to the U.S., Canopy Growth has made this unprecedented move to acquire "at such time as cannabis production and sale becomes federally legal in the United States."

So it's an acquisition that is conditional changes in the federal law.

Pretty astute.

It's a US$3.4 billion cash and stock deal that gives Canopy the means and pathway to enter the U.S. market as soon as it is legal.

Canopy is paying $300 million today for the right to make this acquisition should federal legalization occur.

So Canopy Growth will be reporting its fourth-quarter fiscal 2019 results in June, and until then, we can expect Canopy Growth stock to trade largely based on sentiment and excitement (or nervousness) about the future of cannabis and cannabis stocks.

The situation is fluid and rapidly evolving, so it remains difficult for investors to pin down a fair value for stocks such as Canopy Growth stock.

Let's review the last quarter to see where we're at.

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

Losses continued to mount as expenses increased dramatically to fund the company's growth plans.

For example, SG&A expense 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.

Also, shares outstanding increased dramatically, because of acquisitions and 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.

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

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

This year's range of EPS expectations is from as low as a loss of $2.74 to a loss of $0.64.

On the other hand, we are also seeing more partnerships and deals, which are increasingly giving the cannabis industry more opportunity and credibility.

Canopy remains the leading cannabis stock, with one of the most extensive global presences, and operations in 12 countries across five continents.

Be prepared for a wild ride, and if you're up for it, add on weakness, and take profits to protect your money while you profit from this burgeoning business.

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Date
2025/07/05
Date Created
2019/04/21
Author
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