Canopy Growth (TSX:WEED): Net Loss Skyrockets as Expenses Surge for This Emerging Cannabis Company

Description

Growth stocks in emerging industries that are changing the world definitely have a place in a well-diversified portfolio. But to protect your portfolio from major losses from these risky stocks, keeping them at a relatively small percentage of your portfolio is recommended. Going further than that, holding a basket of these stocks gives you a greater probability that at least one of your higher-risk growth stock holdings will be a winner over the long term.

If we take the auto industry as an example, we can see that while it was clear that the internal combustion engine automobile gave birth to a lucrative industry, which of the early auto companies would survive was less clear. In 1908, there were over 250 automobile manufacturers, while in 1929, there were only 44. And the top three accounted for 80% of the industry's output.

The lesson here, in my mind, is that with new, emerging industries, we need to exercise caution. The cannabis industry today is rapidly emerging and promises to be a very lucrative one with many winners but also many losers. With so many companies vying for the top spots, it seems clear that not all of them will make it.

In this article, I would like to discuss **Canopy Growth's** (TSX:WEED)(NYSE:CGC) fourth-quarter fiscal 2019 earnings that was released yesterday. As one of the leaders, if not *the* leader, at this time in the cannabis industry, Canopy's earnings will be very closely watched as a barometre of the state of this emerging industry and its constituents.

Canopy Growth reported a fourth-quarter loss from operations of $174.4 million compared to a third-quarter loss from operations of $157.2 million and a loss of $51 million in the same quarter last year. That's an 11% bigger loss than last quarter and a 240% bigger loss than last year!

At least net revenue of just over $94 million came in slightly above expectations, rising 312% from the same quarter last year, but this was an only 13.2% sequentially. And the company's gross margin was significantly lower than last year, coming in at 15.8% versus last year's gross margin of 33.6%.

These types of results are exactly what has kept me ultra-cautious on Canopy Growth stock. While year-over-year revenue growth is impressive, sequential revenue growth has come down significantly, and the company's net loss per share came in at a pretty brutal ($0.98). Canopy Growth stock is trading at a price that is factoring in extremely lofty expectations, and with the stock's valuations being so high (250 times the consensus 2021 earnings estimate and 123 times trailing sales), the stock will certainly not handle this well.

With 950,000 square feet of production and logistics space, international licences covering over 35 million square feet of production in place, and $4.5 billion in cash and cash equivalents available to the company, Canopy Growth is ramping up nicely in these early stages. That is worth a lot.

But let's keep in mind, in an emerging industry, it's a long journey — a long and winding road. And as we have seen in yesterday's results, there will be growing pains along the way.

I recommend staying tuned in and keeping a close watch for opportunities to add Canopy Growth stock on weakness.

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