Canopy Growth (TSX:WEED) Stock Is Losing Momentum: Time to Buy?

Description

Canopy Growth (TSX:WEED)(NYSE:CGC) has lost more than a third of its value since late April. In the past one week, the shares of this top marijuana producer have come under pressure after reporting a disappointing earnings report.

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Investors shunned shares of Canopy after the company reported adjusted gross margin of 16% for the fiscal fourth quarter ended March 31. That was below the consensus analyst estimate of 24% and a decline from 22% in the prior quarter.

Canopy tried to downplay this short-term weakness by highlighting the company's massive growth plan , which includes building new facilities for growing and processing cannabis and getting ready for the launch of beverage, edible, and vape-based cannabis products in Canada.

"The fourth quarter wraps up a historic year with major steps taken in Canada to build-out our national platform while scaling all of our processes to bring cannabis to market," said Bruce Linton, the CEO of Canopy Growth, in the earnings statement. "With more product formats coming to the Canadian market later in the year, we are working hard to ensure that we are ready to hit the ground running with products, formats, and brands that Canadians trust."

Canopy expects production to more than double to 34,000 kilograms in the current quarter. Linton also told media outlets that the fiscal fourth quarter represented the bottom of margin trough and gross margins are expected to rise above 40% by the end of fiscal 2020.

Despite this short-term setback, in my view, Canopy Growth is well on track to reach new highs due to the company's solid growth plans. What makes Canopy different from other producers is its market size, capacity to ramp up production, and diversity of product offerings, alongside its international reach.

In its latest updates for the company's U.S. plans, Canopy said it's building hemp operations in seven states to sell products containing the popular compound CBD. Canopy plans to have a range of products on shelves by the fourth quarter of this year, including skincare, beverages, and possibly vape products, as well as food containing hemp protein.

GMP analyst Martin Landry estimates that CBD-based consumer products could amount to a combined U.S. market size of $50 billion.

Initiatives like this and the company's partnership with **Constellation Brands** make Canopy a formidable player in the marijuana space and more appealing to investors looking for exposure to the U.S. cannabis market.

Bottom line

Trading at $53.44, Canopy Growth stock is selling much cheaper than its April level when it crossed $70 a share. Investors who were waiting on the sidelines could take this weakness a buying opportunity.

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