Why Buying Canopy Growth (TSX:WEED) Stock Is a Long-Term Play

Description

There was more than a little doubt as to whether **Canopy Growth** (TSX:WEED)(NYSE:CGC) would surprise investors with profitability ahead of its most recent quarterly results. Even so, when a report marred by a drop in sales and a weak gross margin result landed on news desks, the share price fell accordingly.

And there will likely be disappointment in the Canadian cannabis producer's next report, too, as investment in edibles — some may say a risky play in itself — cuts into the company's bottom line. As pundits have said repeatedly, Canopy Growth will have to announce profitability at some point in the future, otherwise an eventual sell-off could cause lasting damage.

A rough ride, but worth holding on?

Though revenue was up for the quarter, this was thanks to outlying businesses owned by Canopy Growth rather than cannabis sales. Meanwhile, gross margin continued to shrink, ending up at a lowly 16%. Indeed, just to go back to sales for a moment: not only did recreation cannabis business shrink, but so did medicinal cannabis sales.

Legalization was largely a disappointment for cannabis investors across the board, with sales failing to meet the extraordinary heights predicted by pundits bullish on the wacky baccy. Canopy Growth, held up by many observers of the sector to be the number one stock to buy in the marijuana space, has been reliably failing to impress with quarter after quarter. However, the consensus advice seems to be to hold on.

I'd be inclined to agree with this assessment, despite Canopy Growth occupying a rather sprawling position in a highly competitive space with little actual growth and a continual influx of additional licences being awarded. A wait-and-see attitude might be best if you're already invested, though newcomers may find the stock a little too rich at the moment.

Diversifying into edibles may pay off in the long term

The race to enter the edibles market has had a divisive effect on investors, with some pointing to the inherent risk of willfully narrowing one's own margins, while others are bullish about this potentially lucrative area of business. Still others continue to compare the cannabis sector to either the dot.com boom and bust or to other sin stocks such as tobacco, the latter of which, detractors point out, simply isn't profitable as an investment.

The fall will be the next big watershed moment for Canadian cannabis — almost a replay of the moment of legalization — with edibles coming online. Investors are eyeing an influx of revenue from this segment of business, though whether sales can meet expectations is another matter. Some bearish noises are coming from observers, with one of the main points of detraction being the conversion of black market buyers.

The bottom line

Ongoing investment could set substantial profitability back some way for Canopy Growth, with 2021 being a make-or-break guideline for patient investors who have taken long positions. Long term, staying invested in Canopy Growth is a play of confidence that the cannabis producer will eventually come to dominate a multi-billion-dollar industry.

CATEGORY

1. Cannabis Stocks
2. Investing
3. Stocks for Beginners

POST TAG

1. Cannabis

TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Cannabis Stocks
2. Investing

3. Stocks for Beginners

Tags

1. Cannabis

Date
2025/08/26
Date Created
2019/07/01
Author
vhetherington