Will Canopy Growth Return to $60?

Description

Canopy Growth Corp (TSX:WEED)(NYSE:CGC) has fallen hard over the past few months. The stock used to have very strong support at $60, then at $50, but now, it's not certain whether it will have any even at the $40 mark.

The reality is that cannabis stocks have been hit very hard this year, and although Canopy Growth as of Monday's close was still up over 20% since the start of the year, those gains may not last for much longer.

There's a lot of noise right now impacting cannabis stocks, which makes it very difficult to determine where a stock like Canopy Growth might go. The worse the **CannTrust** situation becomes, the more stocks in the industry will suffer as a result, even if they have no issues of their own growing cannabis illegally.

Investors simply have a lack of trust in the industry, which alone could be enough to weigh down otherwise strong cannabis stocks. At minimum, it could take weeks or even months for the industry to recover from the fallout.

As well, stocks like Canopy Growth are feeling pressure to do a better job of meeting expectations. With a greater focus on profitability instead of just sales growth, it's just not as easy for cannabis companies to provide projections of where they'll be tomorrow.

Clearly, the honeymoon phase for the industry is over, and the results can't simply be brushed aside anymore. A good example of that is Canopy Growth's own situation, where a lack of profitability was likely the catalyst behind Bruce Linton being let go by the company.

With the financials not being very strong and the cannabis industry seeing a lot of bearish activity lately, the outlook for Canopy Growth's stock doesn't look good today. The reality of the situation is that the stock has been overvalued for a long time and a correction was long overdue.

As lucrative as the industry may be in terms of growth projections, companies still need to be profitable to be good investments, and that simply hasn't been the case thus far. Strong sales growth won't be enough for investors to pay big premiums, whether for Canopy Growth or any other stock.

Why Canopy Growth could still return to $60

For all of the reasons that Canopy Growth could fall to below $40, there are also a couple of big reasons why it could rally as well.

If the company's change in leadership results in a stronger bottom line, it could be enough to get investors more bullish about the stock.

While the company may not have its visionary anymore, Canopy Growth is already well positioned to take advantage of many developments in the industry, including moves south of the border into a lucrative U.S. market.

Losing Linton may therefore not hurt the company's aggressive growth strategy, at least, not in the near term.

There's also the possibility that the edibles market, and beverages specifically, do well enough that they generate some momentum in Canopy Growth's stock as well.

Overall, I wouldn't be surprised to see the stock return back to $60, but without a major development, it might not happen until sometime next year.

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