Canopy Growth (TSX:WEED): Is This Stock the Ultimate Long-Term Bet?

Description

Cannabis investors have been on a roller-coaster ride in the last year. Just before Canada legalized cannabis consumption for recreational use, cannabis stocks were trading close to all-time highs. Since then, markets have been choppy, and investors have experienced extreme volatility.

Shares of **Canopy Growth** (TSX:WEED)(NYSE:CGC) have mirrored the markets. The stock was trading $76.68 per share back in October 2018 and has lost 43.1% in market value since then.

So, is it time for Canopy Growth shares to bounce back? Well, the company has experienced a pullback recently after its CEO and founder Bruce Linton was dismissed by the board of directors. Linton had built Canopy Growth to a $20 billion giant. But the board was unimpressed by Canopy's piling losses.

The cannabis industry has also failed to gain investor confidence, and several experts have raised questions about corporate governance in this business. The recent scandal of **CannTrust** has exasperated these concerns. The Canadian Marijuana Index too is down over 30% since April this year.

Are negative profits a huge concern for Canopy Growth?

Canopy Growth has seen a stellar rise in revenue over the years. Its sales have risen from $40 million in fiscal 2017 (year ended in March) to $78 million in 2018 and $253 million in 2019. Analysts now estimate sales to reach $729 million in 2020, $1.32 billion in 2022, and $2.13 billion in 2023. This would imply an annual growth rate of over 100%.

But Canopy has failed to improve the bottom line, and this has left investors unhappy. Canopy Growth's losses have increased over time. The company posted a net loss of $17 million in 2017. This rose to $70 million in 2018 and a staggering $685 million in 2019. Canopy's profit margins will get better going forward.

Its losses will narrow to $524 million in 2020 and $76 million in 2021. Analysts expect the company to post a net profit of $309 million in 2022, indicating a healthy net margin of 14.5%.

Canopy Growth had raised $526 million via a stock issue in fiscal 2018. It also raised $5.2 billion in another stock issue in, while $600 million was raised in a debt issue in fiscal 2019. While this will dilute investor holding, stakeholders will not mind as long as Canopy Growth can continue to exponentially grow sales and expand profit margins.

The new CEO will be backed by Constellation Brands

Canopy Growth is also looking for a new CEO. There are speculations that the position will be filled in by **Constellation Brands's** leadership team. Constellation Brands had invested $5 billion in Canopy Growth and has a 38% stake in the company. This is likely to boost investor confidence and will mean that Constellation Brands is all-in.

The verdict

Canopy Growth shares were overvalued when it was trading at $76 per share last year. The stock has corrected significantly and might still experience some volatility. However, the cannabis industry is a fast-growing market. Canopy Growth is a major player here and is consolidating its position in international markets. It also has a huge opportunity to grow inorganically.

If Canopy Growth can stay away from controversies and improve margins in line with estimates, this stock will generate significant investor returns. Constellation Brands is betting on Canopy Growth big time. While no one can predict when the stock bottoms out, it would be advisable to keep increasing positions on major dips.

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