Should You Buy Canopy Growth Corp (TSX:WEED) Ahead of Earnings?

Description

Canopy Growth Corp (TSX:WEED)(NYSE:CGC) is expected to release its latest quarterly results this week. It will be the company's first quarter since a disastrous Q4 — and the first since the departure of former co-CEO Bruce Linton.

The start of a new fiscal year, this will be a big test for the cannabis giant to see whether it's been able to make any progress in keeping its costs down and getting closer to profitability, which we know is a goal for the company.

However, given its rapid growth and many initiatives that Canopy Growth is working on, it would certainly be a big surprise for the stock to pull out a profit.

A none-too-impressive track record

For five straight quarters, Canopy Growth has fallen short of expectations. Before the release of Q4, the stock was trading around $57 and fell sharply afterwards.

Heading into this week, Canopy Growth was just over $43 and in danger of dropping below the $40 mark, which could certainly happen with another bad quarter.

While the company has been showing significant sales growth, the challenge has been further down the income statement, where Canopy Growth continues to see a lot of red.

Only once during the past 10 quarters have we seen the company record an operating profit, and that was two years ago. Over the trailing 12 months, Canopy Growth's operating losses have totalled nearly $600 million.

Net income has been a bit more volatile, with other income and expenses causing a lot of noise on the company's financials; they have helped Canopy Growth record a profit three times during the same period.

Odds are that we'll see the continuation of that trend in Q1, the question simply being whether we see the problem getting worse or whether Canopy Growth is able to make some strides towards breakeven status.

Low price might make the stock a more attractive buy

One of the knocks on Canopy Growth in the past has been its extremely high valuation, which is sometimes hovering around the $20 billion mark.

With the recent declines, the stock is now closer to around $15 billion, and while that might still be high, it could give investors a lot more comfort in knowing that there probably isn't as much of a risk of a big correction happening even if Canopy Growth falls short of expectations.

The last time the share price was below $40 was in early January, when it was recovering from a significant sell-off that took place in late 2018.

Is the stock worth the risk?

Although things have not been ideal for pot stocks lately, I'd be surprised if Canopy Growth didn't find some support at $40. It could be a good price point to buy the stock at, especially now that we know management will be a bit more focused on expenses and getting the financials out of the red.

While this will take some time, over the long term, we could see some more improvements, as the company has already laid the groundwork for a lot of growth and can now focus on cost control.

For those bullish on the industry, the stock could be a relatively cheap buy as there looks to be a lot more upside than there is risk of the stock falling much lower than where it is today.

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Date
2025/08/23
Date Created
2019/08/13
Author
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