Canopy Growth (TSX:WEED): A Great Stock to Buy on the Dip?

### Description

It’s been one of the worst quarters for the marijuana market leader, **Canopy Growth Corp.** ( TSX:WEED)(NYSE:CGC). Its stock has tumbled more than 40%, erasing almost all the gains it made this year.



No doubt, this downfall is coinciding with overall flight from risky assets to safety, but Canopy Growth has problems of its own, too. One recent example came this week when this pot producer reported its second-quarter earnings, missing big time on analysts’ expectations.

Canopy’s stock plunged as much as 15%, the biggest decline since November, after the company said it made $90 million in fiscal first-quarter revenue, a decline from the previous quarter and below the lowest analyst estimate.

It also reported a second quarter-over-quarter decline in net cannabis revenue and took an $8 million write-down to account for unsold product.

This latest setback came after the company fired its CEO Bruce Linton in July amid growing pressure from the largest shareholder **Constellation Brands Inc,** which was losing patience on the company’s mounting losses and sought to improve its financial performance.

## Canopy Growth revenue plan intact

So far, this was a story of a glass half-empty. In my view, Canopy has a solid plan to maintain and improve its position as the top marijuana producer in the Canadian market, which opened up for recreational use in October.

According to its acting CEO Mark Zekulin, Canopy’s problems are related to the evolving nature of this nascent market. For example, for the June quarter, Canopy didn’t have enough high-THC dried flower (which is in great demand) due to facilities that were taken offline for upgrades in prior quarters. That bottleneck didn’t help to improve sales.

As those facilities came back online, Canopy harvested 40,960 kilograms of cannabis in the quarter ended June 30. This is the largest quarterly harvest to date of any Canadian pot producer, according to a report in *Bloomberg*.

The other issue that is hurting the smooth sale of cannabis products is that of not enough retail outlets in Canada as the nation's provinces take time to allow new store openings to ensure that there is enough supply available. Zekulin termed it a "chicken-and-egg scenario."

On a call with analysts, Zekulin said the company is on track to achieve a target of $1 billion revenue run rate and gross margins of 40% by the end of March. Canopy also expects its Canadian business to deliver positive adjusted earnings before interest, taxes, depreciation and amortization on a quarterly basis within fiscal 2021.

## Bottom line

Trading at $36.41 at writing, Canopy Growth stock has become extremely attractive for long-term investors. I don't see much change on the ground that requires such a massive adjustment as far as the Canopy Growth stock price is concerned.

With the company's short-term revenue target remaining on track, investors who want to buy-and-hold this stock can take advantage of this pullback.



**CATEGORY**

1. Cannabis Stocks
2. Investing

**TICKERS GLOBAL**

1. NASDAQ:CGC (Canopy Growth)
2. NYSE:STZ (Constellation Brands Inc.)
3. TSX:WEED (Canopy Growth)

**PARTNER-FEEDS**

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

**Category**

1. Cannabis Stocks
2. Investing

**Date**
2025/08/25
**Date Created**
2019/08/18
**Author**
hanwar