Canopy Growth Corp (TSX:WEED) Is Going Downhill: Is it Time to Fold?

Description

Canopy Growth Corp (TSX:WEED)(NYSE:CGC) is often touted as one of the best investments within the marijuana sector. The Ontario-based firm is one of the leaders in peak production capacity and is part of a select few that possess supply agreements with every Canadian province. Further, Canopy — which has managed to land a partner with deep pockets — leads all its peers in the cash-on-hand category.

Canopy has strong international footprints, including a plan to conquer the U.S. market, which will become the largest market in the world. Despite all these factors, however, Canopy is currently being slammed by analysts, many of whom have issued downgrades to its stock's rating, or have significantly decreased their price targets. The company's latest financial results are the main reason why.

Why Canopy's financial results were disappointing

Canopy's net revenues of $90.5 million represented a 249% increase year over year. The majority of the firm's sales — about 72% — came from its recreational segment, and the remaining 28% came from its medical segment.

On a positive note, more than 10% of Canopy's revenues were generated from its international operations. Breaking down the company's revenues a bit further reveals that about 80% of its cannabis sales came from dry cannabis products, while 20% were generated by sales of oils and soft gels.

While these results seem solid at first glance, Canopy's revenues actually declined by about 4% sequentially. This is an important note; the corresponding period of the previous fiscal year is not comparable, as the recreational uses of marijuana were not yet legal.

Now that they are, Canopy is expected to generate strong and consistent revenue growth, but that isn't what is happening. Canopy pointed to a decline in sales of oils and soft gels as the cause for this sequential decline in revenues.

To make matters worse, Canopy also posted a much bigger net loss than what most had anticipated. The firm's loss per share came in at $3.70. On the one hand, Canopy had a good explanation for this. The company incurred a $1.2 billion non-cash charge related to its deal with

Constellation Brands.

On the other hand, significant net losses — particularly those that come way short of predictions — are never a good thing. The biggest takeaway, however, is that Canopy is losing ground in the Canadian cannabis market.

What's next for Canopy?

Derivative marijuana products such as cannabis-infused drinks and edibles are set to become legal very soon in Canada. Canopy seems to be in a great position to profit from this high-margin market thanks to its partnership with Constellation Brands.

Perhaps this new opportunity will help boost the its revenues to entirely new heights. Thus, there is still much left in the tank for Canopy. But with profitability still years away, investors are naturally concerned. The next few quarters will be critical to the future of the world's largest cannabis company.

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