



Canopy Growth (TSX:WEED) Stock: What Should You Do After Its Major Correction?

Description

This could be the correction you've been waiting for! If you're reading this article, you're probably interested in participating in the growth of the cannabis industry.

Canopy Growth ([TSX:WEED](#))(NYSE:CGC) is a top holding of marijuana funds and the stock is trading at half price from its 52-week high. That said, in the last five years, WEED stock has been, well, growing like a weed, resulting in a roughly 14-bagger despite the approximately 15% correction after reporting its first-quarter fiscal 2020 results on August 14.

The correction dragged down the stock to close to its technical support line of about \$35 per share and is a good time to consider as a long-term investment for three to five years out.



Here are some key takeaways from the first-quarter results.

Revenue not as good as hoped

Net revenue increased by 249% to \$90.5 million against the comparable quarter a year ago. This would have been amazing growth for most companies outside of the [cannabis](#) industry. However, it wasn't enough to please the Street which estimated for \$21.3 million higher in revenue.

Gigantic net loss on the surface

Another reason for the big drop was that Canopy Growth reported a huge net loss of -\$1.28 billion or -\$3.70 per share, which missed estimates by \$3.29 per share.

It turns out the biggest contributor to the loss was a one-time, non-cash charge on the extinguishment of warrants held by **Constellation Brands**. Excluding this charge, the net loss would only have been -\$105 million, or essentially \$0.00 per share, which is much easier for investors to digest.

Gross margin compression

What might have been alarming is that the gross margin fell much lower to 15% from 43% a year ago.

Canopy Growth explained that the lower margin was primarily due to operating costs related to facilities that haven't begun production yet and a shift in product mix.

Record harvest

On a positive note, Canopy Growth harvested 40,960 kilograms, an increase of 183% over the prior quarter and greatly exceeding its previous estimate of 34,000 kilograms.

This is significant because the Q1 harvest was the first full-scale harvest since it began retrofitting its large-scale greenhouse facilities in 2018, and with the majority of the work completed at the facilities, [Canopy Growth](#) will be shifting its focus on optimization to increase yield and lower cost.

Foolish takeaway

The gross margin compression is a temporary phenomenon, and the company is confident that it can return to being a high margin business and eventually transform into a profitable one.

At \$36 and change per share as of writing, WEED stock trades at about 44 times sales and 2.6 times book, which is a huge discount of 65% and 49%, respectively, from its five-year multiples. So, now is an opportunistic entry point for investors with a big appetite for risk and volatility.

With some margin expansion over the next quarters, I wouldn't be surprised if the stock traded at the \$50 level again for gains of 37% or more!

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