Canopy Growth (TSX:WEED): Is This Pot Stock Oversold?

Description

Marijuana stocks continue to trend lower, and that has investors wondering if the big names in the cannabis sector are finally trading at attractive stock prices.

Let's take a look at **Canopy Growth** (TSX:WEED)(NYSE:CGC) to see if it deserves to be on your buy list today.

Volatility

Pot stocks continue to take investors on a wild ride.

Canopy Growth started 2019 at close to $39 per share and rose to a high of $70 at the end of April. Since then, the trend has been downward, and the plunge recently picked up steam. At the time of writing, Canopy Growth trades at $37.50 per share.

The latest extension of the slide occurred after Canopy Growth's results for the three months ended June 30 came in weaker than the market expected. The company reported a net loss of $1.28 billion for the quarter compared to a net loss of $91 million in the same period last year.

The number appears staggering, but $1.18 billion is actually a non-cash charge connected to the expiration of warrants held by American beer, wine, and spirits company **Constellation Brands**. The alcohol giant invested more than $5 billion in Canopy Growth over the past two years and owns about 38% of the stock.

Canopy Growth's share price dropped 15% on the earnings news, which seems a bit drastic until you dig down into the results.

Gross margins for the quarter came in at 15% of net revenue compared to 43% in the same period last year. Revenue levels also came in light at $90.5 million compared to consensus estimates of about $107 million. That said, revenue ramped up significantly from $25.9 million in the same quarter 12 months ago.

Canopy Growth continues to increase production, as new facilities are completed, and the launch of the recreational market in Canada is driving new revenue to complement the company's leadership in the expanding medical marijuana segment.

Reports from retailers across the country suggest the company's oils and gel products are not selling as quickly as anticipated. This might be a sign that the initial excitement among Canadians to buy cannabis products in the first few months of legalization is wearing off.

The market remains in its early days, and shifts in consumer demand and product mix should be expected.

Leadership

The stock price isn't the only aspect of the company that is going through some turbulence. Canopy Growth's board fired CEO and co-founder Bruce Linton in July.

The interim CEO and also a co-founder, Mark Zekulin, is running the company while the board searches for a new leader. The firing of Linton is believed to be the result of a desire by Constellation Brands to see Canopy Growth focus on generating profit rather than expanding quickly in as many markets as possible to get a head start on competition in the rapidly growing medical marijuana industry across the globe.

Should you buy today?

Canopy Growth says it could still be three to five years before the business becomes profitable. Investors have to decide whether the current market capitalization of $13 billion adequately reflects the growth opportunity.

The stock is certainly more attractive at today's price than it was at $70. However, three years is a long time to wait for profits.

I would probably stay on the sidelines until the latest downtrend in the sector runs its course. We could see additional weakness, as investors adjust expectations for the industry.

In addition, the broader stock market might hit a rough patch in the next couple of months, similar to the correction that occurred late last year. As such, more pain could be on the way.

Other cheap stocks might be better picks right now.

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Date
2025/08/24
Date Created
2019/08/20
Author
aswalker