At What Price Is Canopy (TSX:WEED) Worth Buying?

Description

The market value of the one-time pride of the cannabis industry has eroded over the last five months. As of this writing, **Canopy Growth's** (TSX:WEED)(NYSE:CGC) market cap is $10.85 billion. If it falls below $10 billion, the company loses its large-market-cap status. If you were to invest in WEED, at what price should you buy it?

Canopy is facing a bumpy ride ahead. The pressure is on for management to maneuver the business, stop the bleeding, and endure the storm. Otherwise, the company would not be able to assume a dominant industry position.

New direction

The partnership with **Constellation Brands** was supposed to guarantee Canopy's long-term success. But the alcoholic beverage giant has had enough of the previous CEO's strategy of giving up profits in favour of massive investments in growth. The fiscal first-quarter net loss of $1.28 billion affirms Constellation's disgust.

Canopy is struggling to become a sustainable, high-margin, and profitable business. However, Canopy's interim CEO Mark Zekulin bared a two-pronged approach to achieve the objectives.

He said that Canopy would remain focused on laying the foundation for dominance in an emerging global opportunity. The game plan is to invest in developing intellectual property, build brands, build international reach, and ensure scaled production capability for current and future products.

The second approach is that Canopy would remain fixated on the process of evolving from builders to operators over the remainder of this fiscal year. With Constellation Brands running the show, Canopy is heading to further diversification.

Biggest loser

Canopy's strategy doesn't assure investors. Unlike before, people no longer bite whenever cannabis companies disclose plans. A newsflash won't work to boost the stock anymore, especially if Canopy is the industry's biggest loser as of August 2019.

Constellation Brands expects to book US$54 million in its second quarter of fiscal 2020 ending on Aug. 31, 2019, because of Canopy. But despite the considerable loss, Canopy's significant shareholder is confident its high-profile investment will pay off in the future.

Within a month, Canopy's market value dropped by 27.45% to its current level. The company continues to produce sub-par operating results with cannabis sales remaining flat. An inventory re-balancing led to more sales of low-margin cannabis products. Canopy's high costs and low margins are red flags.

Canopy won't be able to create inroads in the international markets until Canada resolves the supply problems. Canopy is also pinning its hope on the U.S. market with the acquisition of Acreage Holdings on a contingency basis. However, cannabis legalization at the federal level would come in about two to five years' time.

Price forecast

Back in late April, WEED was trading at $69.90, or 55% higher than its current price of $31.18. One month after the firing of Bruce Linton as Canopy's CEO on July 2, WEED fell by 18% to $43.22. A day after reporting a $1.2 billion quarterly loss, the stock sunk further to $36.41.

WEED is nearing its 52-week low, so don't bet your marbles yet. You won't lose any if you wait for the stock to post a new low. More likely, the industry's bellwether could be the last among cannabis stocks to generate recurring profit.

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