Why Did Shares of Canopy Growth (TSX:WEED) Fall Close to 8% Yesterday?

Description

Shares of Canada's leading cannabis company, **Canopy Growth** (TSX:WEED)(NYSE:CGC) fell almost 8% yesterday. The stock is currently trading at $34.92, which is 54% below its 52-week high. It is trading 15% above its 52-week low.

While peer cannabis stocks were falling in market value last week, Canopy Growth managed to hold its own and rose from $31.46 on August 30 to $38.25 on September 18, 2019. While there was no relevant news that drove Canopy stock lower yesterday, it is quite possible that the company was impacted by overall market weakness.

Cannabis stocks continue to lose market value

Cannabis stocks made a comeback in the first few days of this month. However, these gains were quickly reversed after **Aurora Cannabis** reported its quarterly results. Aurora missed analyst revenue and earnings estimates, and its lukewarm results drove several stocks lower.

The cannabis industry continues to be impacted by regulatory issues. **CannTrust** was issued a suspension notice from Health Canada. Regulatory bodies are also having second thoughts about vapes and related products. The licences to open retail stores are not handed out easily, resulting in a significant demand-supply gap.

Aurora Cannabis has lost 13.9% since September 13. **Horizons Marijuana Life Sciences Index ETF** is down 6.6% since September 10. **Aphria** and **Hexo** have lost 13.7% and 14.1%, respectively, since September 5.

Canopy's quarterly results were also below estimates

Investors were unimpressed after Canopy Growth announced its fiscal first-quarter 2020 (ended in June) results last month. The company reported sales of $90.5 million with earnings per share (EPS) of -$0.30. This was above analyst revenue estimates of $86 million. The company also managed to beat earnings estimates of -$0.37.

However, Canopy reported an unadjusted net loss amounting to a massive $1.28 billion. Canopy's expansion efforts and its acquisition of Acreage Holdings drove net losses higher in the June quarter.

Analysts were also unimpressed with Canopy's lacklustre sales in the recreational cannabis segment. Canopy's recreational cannabis sales fell by 11.5% sequentially to $61 million in the first quarter. This decline was offset by a 76.1% gain in the medical cannabis segment.

Recreational cannabis accounted for 59% of total gross revenue, while medical cannabis accounted for 23% of sales. This meant total gross revenue fell 2.9% sequentially in the June quarter.

Canopy Growth well below ex-CEO's target revenue

Back in April this year, Canopy's ex-CEO Bruce Linton had targeted revenue of $1 billion in fiscal 2020. Linton was asked to leave Canopy Growth due to mounting losses. Canopy continues to post huge losses and is well below Linton's revenue target.

Analysts expect Canopy to post sales of $632 million in fiscal 2020. This is a significant 37% below Linton's aggressive forecast. A lot will depend on how Canopy Growth performs going forward.

The company is valued at a market cap of $12.3 billion, making it the largest cannabis firm in the world. Any earnings or revenue miss not only impacts Canopy shares, but it also drags stocks of peer companies lower.

Investors were banking on the next wave of edibles legalization to drive marijuana stocks higher but cannabis companies have continued to spiral downwards.

Analysts covering Canopy Growth have a 12-month average target price of $55.64. This indicates an upside potential of 58% from the current price for Canopy investors.

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