



Will Canopy Growth (TSX:WEED) Stock Rise to Triple Digits in 2020?

Description

Over the course of this year, **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) stock has tumbled precipitously, hitting new 52-week lows, as the marijuana/cannabis bubble is no more. This, of course, has not gone unnoticed, and now investors are contemplating buying the stock at these “lows.”

But is Canopy stock's [price level really that low](#)? Or is it just a case of the fluff being wiped out of its valuation — the euphoric sentiment being washed away? Can we finally start to value this stock based on an analysis of the risks, the earnings and cash flow that are being generated, and a realistic viewpoint of the future? And is it realistic to expect Canopy Growth stock to end 2020 in the triple digits?

Results disappoint and estimates (expectations) are free falling

Earlier this year, as enthusiasm and excitement rose, Canopy stock began trading at extremely lofty valuations, even as the company continued to lose more and more money, but this did not faze investors. Until the last shoe dropped, and the losses were just too much to bear.

In fiscal 2019, the company's net loss per share was \$2.67 compared to the average of analyst estimates (the consensus estimate) earlier in the year that were calling for a net loss of \$1.78 per share. At this point, the fiscal 2020 consensus EPS estimate is for a net loss of \$3.87 — an estimate that keeps getting revised lower.

I know the argument that we should not be looking at earnings in such a high-growth industry that has a huge addressable market, but the fact is that these companies can only lose money for so long before they get into trouble and the market loses its patience.

This year, we have seen that happen, as cannabis stocks have seen their bubble burst. CanopyGrowth stock is now trading at a price-to-trailing-sales multiple of 37 times compared to levels that were closing in on 100 times sales in its heyday just a few months ago. Revenue is still growing at impressively high rates of 225% in the latest quarter, and the acceptance of cannabis continues to grow worldwide. New partnerships, research, and products will continue to drive growth for Canopy.

Canopy Growth is still in major growth mode

[Being in growth mode](#), we can naturally expect the company to be making big investments and capital expenditures, as management attempts to “lay the foundation for dominance in this emerging global opportunity.” That’s all good.

What is even better is that now we have management talking about the company’s strategy, which was systematically laid out along with the release of first-quarter fiscal 2020 results. The growth plan remains focused on building intellectual property, building brands, and international reach. Number two on the list of priorities is on becoming high-margin operators here in Canada as the growth phase comes to a close. Building a profitable business in Canada will depend on the launching of new products, from beverages to vaping, and a focus on brands.

Foolish bottom line

Canopy Growth remains one of the top cannabis stocks, and the hope is that the new management can get the company on the road to reducing losses and ultimately turning a profit sooner rather than later. At this point, Canopy Growth stock is still riding the downward momentum, and I would need to see more capitulation before considering buying the stock.

It is looking more attractive, of course, but many of the risks that were stopping me from buying the shares earlier this year still exist. Eventually, slowly building a small position in Canopy stock as capitulation occurs can ultimately prove to be a good move.

I do not expect the stock to get into the triple-digit range in 2020, as I believe the company would need to post significantly stronger earnings for this to happen, and this will take some time.

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