What Impacted Canopy Growth (TSX:WEED) Last Week?

Description

Shares of leading cannabis company **Canopy Growth** (TSX:WEED)(NYSE:CGC) fell close to 16% in the last week. We have witnessed how cannabis stocks lost significant market value after **Hexo** reported its preliminary results for the July quarter below analyst estimates and withdrew its guidance for fiscal 2020 (ending in July).

Soon after Hexo's dismal guidance, Jeffries downgraded Canopy Growth stock from "buy" to "hold," driving the stock lower by 5% on Friday.

The analyst note states, "With a number of negative headlines impacting the sector the last 6 months, and still with little sign of profitability, the sector has seen greater risk/volatility priced in," according to one Market Watch report

Jeffries reduced the price target for Canopy Growth by 67% from $77 to $25. Canopy Growth closed trading at $25.67 on October 11, 2019. Jeffries cut the price target for several other cannabis stocks as well, as per Market Watch.

Hexo's price target was reduced by 51% to $3.80 while the price target for **Cronos** was reduced by 33% to $10. **Aurora Cannabis, The Green Organic Dutchman, OrganiGram** and Tilray also saw their target price reduced by 50%, 63%, 22%, and 56%, respectively.

What next for Canopy Growth investors?

The massive drop in target prices has added to the already volatile movements in the cannabis sector. We have already looked at the various issues plaguing cannabis stocks since the legalization of recreational marijuana in Canada last October.

It started with concerns over high stock valuations, which were followed by regulatory issues and the vaping scandal. Now, as top pot companies are reducing their sales forecast, there is a serious worry regarding oversupply and rising inventory levels.

But after the gigantic erosion in value is it safe to assume that the worst is over? Have the cannabis stocks bottomed out? Not quite. Investors will be impacted if the upcoming quarterly results and forecast for pot stocks are underwhelming.

The investor optimism that was driving pot stocks to record highs in 2018 has now been far more subdued. The revised downward forecasts have also put the impact of the illegal market on the top-line for marijuana stocks into the spotlight. The illegal cannabis market accounts for a significant 40% of total sales, according to a CBC News report.

Canopy Growth is valued at $8.93 billion

Although Canopy Growth is still one of the largest companies in terms of market cap and valued at $8.93 billion, the stock has declined by 63% in the last 12 months. It's valued at 14.5 times forward sales and is struggling to be profitable.

In fiscal 2020 (ending in March), although analysts expect Canopy's sales to rise by 171.4%, its earnings per share (or EPS) is estimated to fall by 50.6%. If Canopy fails to meet its revenue target, the EPS can decline further.

Canopy Growth has the backing of **Constellation Brands,** which will help the former gain traction once the second wave of edible legalization is up and running. Constellation Brands has a 38% stake in Canopy but has also been impacted by the latter's rising losses.

Stocks of Canopy Growth and its peers might gain momentum if there is a strong demand for edibles, vapes and concentrate products. These products are expected to be available for retail purchase by the end of 2019.

For now, however, investors will remain cautious as analysts continue to revise target prices lower citing profitability as a major concern.

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