



Is It Time to Go Bottom Fishing With Canopy Growth (TSX:WEED) Stock?

Description

Shares of Canada's cannabis giant **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) closed trading at \$28.53 on October 25, 2019. The stock is trading 60% below its 52-week high of \$70.98. Similar to peer cannabis companies, Canopy Growth has also lost considerable market value in the last year.

Has Canopy Growth stock bottomed out after the recent pullback or will it move lower by the end of CY 2019?

How do analysts view Canopy Growth?

Wall Street analysts have had to revise their target estimates lower for most cannabis stocks over the few several months. The extended bear run in the cannabis market coupled with an overestimation of demand has led to the downward revisions.

According to multiple reports from *The Fly*, Piper Jaffray lowered Canopy's target price from \$40 to \$36. Piper Jaffray believes Canopy's cash position can help the company target growth. **Bank of America Merrill Lynch** reduced Canopy's price target from USD \$27 to USD \$23.

Canopy Growth stock has been downgraded by investment banks. Jeffries downgraded Canopy from hold to underperform and Seaport Global downgraded Canopy from buy to neutral.

Seaport analyst Brett Hundley reduced Canopy Growth's revenue forecast for fiscal 2021 (ending in March) to \$620.37 million (or USD \$475 million) with an EBITDA forecast of -\$75 million (USD). Comparatively, analysts expect [Canopy Growth to post sales of](#) \$1.08 billion in 2021.

Canopy Growth continues to invest heavily in capital expenditure

We know that **Constellation Brands** has a 38% stake in Canopy Growth. This massive investment has helped the latter focus on growth and expansion rather than worry about the bottom line.

In fiscal 2020, Canopy Growth's capital expenditure is estimated at \$600 million while the sales estimates stand at \$588 million.

Canopy Growth has recently opened its 27th retail location with the second in Brandon, Manitoba. Recreational cannabis consumers in Canada have a strong retail store brand recognition, while the brand loyalty for the manufacturer is low.

Canopy Growth President Rade Kovacevic stated, "Retail presence is a key driver of brand recognition in a competitive market. With twenty-seven locations already open and many more in the works we are confident we're establishing a national presence that can pay dividends for years to come."

Partnerships and acquisitions

Canopy Growth's pharmaceutical business Spectrum Therapeutics continues to expand in pan-European markets and has secured exclusive opportunities in the U.K. and Luxembourg in the medical cannabis space.

Earlier this month, Canopy Growth closed the acquisition of cannabinoid-based research firm Beckley Canopy Therapeutics. Canopy Growth will look to increase the breadth of clinical research and trials across the U.K and Europe with this acquisition. Beckley will be integrated with Spectrum and should result in operating efficiencies for Canopy.

In October 2019, Canopy also announced an all-cash transaction to purchase a majority stake in BioSteel Sports Nutrition. BioSteel is a leading producer of sports nutrition products. This acquisition will enable Canopy Growth to gain traction in the sports nutrition and hydration segment.

BioSteel has partnerships with USA Hockey, Athletics Canada, the Professional Hockey Players Association and Canada Basketball. It has over 10,000 distribution points in North America and is now looking to expand in Europe.

The verdict

The growth story for marijuana companies is far from over, but cannibalization from illegal markets is expected to continue over the next few months. This will impact demand and result in high inventory levels.

Though analysts remain bearish, Canopy Growth has the backing of Constellation Brands, allowing it to pursue aggressive growth opportunities. While it will take a few years before WEED posts an adjusted profit, is it time for investors bet on the company's increasing addressable market once again?

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Author

araghunath

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