TFSA User Alert: Buy This Cannabis Stock for a 100% Gain in Your Portfolio

Description

Canopy Growth (TSX:WEED)(NYSE:CGC) has not had a good year. After reaching an all-time high of $67 earlier this year, the stock price has plummeted by 60% to close at $27 at the time of writing. Many early investors, who thought they were about to become millionaires when they bought shares for under $5 and saw them take off, have been bitterly disappointed and stampeded for the exits.

First-quarter earnings released in mid-August weren't impressive, which put tremendous pressure on the stock price. While the company had several strategic long-term wins that will bear fruit in the future, the immediate concern investors had is a net loss, growing from $91 million to a massive $1,281 million.

The quarterly loss is not a long-term concern

This kind of loss is staggering but makes sense in the context of a one-time, non-cash loss on some warrants held by **Constellation Brands**, the U.S. alcohol giant that is a major investor in Canopy. This loss will not be repeated in future quarters but most investors can't see past the noise, so the stock has predictably crashed.

By any account, the world's biggest cannabis producer is doing very well and taking full advantage of its scale in an industry that is still very much in the first phases of growth, globally speaking.

The company is leveraging its investment in This Works, a skincare company, to create a new line of cannabis-infused skincare and sleep solutions. The Canopy team has been working hard since the start of the year to identify and contract a robust, scalable, and outsourced supply chain to get these products into the market by the end of the year.

The right strategic steps

News recently came out of a decision that is very strategic and important in the grand scheme ofthings. That is the company's decision to set up shop on Toronto's Mink Mile.

Canopy confirmed that it is in advanced negotiations with a cannabis retail license applicant to open a Tokyo Smoke store at One Bloor Street East, located at one of the busiest intersections in the country at the corner of Yonge Street and Bloor Street. This area of the city is akin to Madison Avenue or 5th Avenue in New York City or the Mayfair area in London.

In other words, the area screams classy, exclusive, and ultra-high-end. This matters a lot from a reputational standpoint because the cannabis sector needs to get out from under its seedy roots to become a product that is as exclusive as a high-end single match scotch whisky.

Once it can turn a reputational corner, the industry will blossom in Canada and other parts of the world where cannabis is legal or about to become legal.

Canopy is not having a great year from a bottom-line perspective but then again, many companies that are going to become the giants of tomorrow need to invest substantial amounts to gain scale, because superior shareholder returns without a large scale advantage is extremely difficult in today's economic environment.

The company is committed to its Canadian business delivering positive adjusted earnings before interest, tax, depreciation, and amortization (EBITDA) on a quarterly basis within fiscal 2021. In addition, Canopy's consolidated operations are forecast to deliver positive adjusted EBITDA on a quarterly basis by 2022.

The company has also publicly announced that it is in agreement with its major shareholder Constellation's expectations that its consolidated operations will begin to deliver positive net income within three to five years.

Positive net income should, in theory, get the company closer and closer to positive cash flow in five to seven years and the ultimate metric, positive free cash flow within eight to ten years.

The foolish bottom line

Canopy's financial picture will get clearer year by year but this will be a slow burn. It is highly likely that one of the U.S.-based food or tobacco giants will look to acquire the company to gain a firm foothold into this new and very lucrative global industry.

Given the volatility of the stock price, smart investors would do well to pay attention to the upcoming quarterly earnings and see if the company is making progress towards its goals before investing.

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