Marijuana Stocks: Has Canopy Growth (TSX:WEED) Reached a Bottom?

Description

The downward spiral that hit Canada's marijuana sector continues unabated. **Canopy Growth** (TSX:WEED)(NYSE:CGC), the world's largest cannabis producer, has lost more than 60% of its value since hitting a record high in April.

The major question before investors after this massive correction is, are these beaten-down stocks close to reaching a bottom?

Investors are selling marijuana stocks amid disappointing results, regulatory issues, and vaping-related health fears in the U.S. That combination of negative factors coincided with a general shift to safety in global markets, as the continuing U.S.-China trade dispute increases the risk of a recession.

Further adding to this uncertainty is the company's inability to show a path to profitability. Canopy Growth, in its last earnings released in August, reported revenue that missed the lowest analyst estimate.

The next big day for investors is Nov. 14, when the company is scheduled to report its fiscal second-quarter earnings report. Analysts, on average, expect a loss of $0.39 a share on sales of $109.46 million.

Gloomy outlook

As the outlook remains gloomy for marijuana stocks, there are some analysts who see the sell-off in marijuana stocks getting ahead of itself. Pablo Zuanic, an analyst at the New York-based Cantor Fitzgerald, said in a report to clients this week that several pot companies are attractive at current levels based on the long-term opportunity, and that concerns hanging over the sector are priced in and overdone.

"We are calling the bottom on Canadian cannabis stocks and think positive catalysts far outweigh negative ones," Zuanic said.

Zuanic is building his bullish case for some marijuana stocks based on strong growth in Canadian recreational cannabis sales, an increase in retail store openings, the pending roll-out of Cannabis 2.0

products, such as vapes and edibles, further sector consolidation, and potential interest from major consumer packaged goods companies partnering with pot companies.

Cannabis vapes are among a series of new products — including edibles, extracts, and topicals, like lotions — that officially became regulated on Oct. 17, 2019. The earliest these will be for sale legally in Canada is mid-December.

In my opinion, Canopy Growth stock remains the safest bet for investors who want to take advantage of the low prices and are looking to add some marijuana stocks to their portfolio. Canopy Growth's ability to serve the broader cannabis market is still intact. It's having a large harvest, while its inventory level is growing, strengthening its competitive position in the market.

Canopy harvested 40,960 kilograms of cannabis in the first quarter, the largest quarterly harvest to date of any Canadian pot producer. That supply position makes Canopy a superior player that could service the growing demand from Canadian consumers and aggressively price its products to maintain its leading position.

Bottom line

Looking at analysts' average consensus price target for Canopy for the next 12 months, it seems there is a huge disparity in what analysts think about the future prospects of this company.

Canopy's share price is forecast to hit $45 a share, with a potential to double the investment if bought at the current level. In my view, the current weakness offers a good opportunity for long-term investors to take a position in Canopy Growth stock. The next earnings report could offer further insight.

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