Canopy Growth (TSX:WEED) Is the Best Marijuana Stock to Buy on Weakness

Description

It seems the downward spiral that gripped marijuana stocks this year will get worse before we see any sign of bottoming out.

The stock of **Canopy Growth Corp** (TSX:WEED)(NYSE:CGC), the world's largest cannabis producer, plunged to the lowest since December 2017 last Thursday. The largest pot company in the world saw its market value dropped to $7.1 billion from $24 billion reached in April.

The recent slide deepened when Canopy Growth reported revenue last week that missed the lowest analysts estimates with a whopping loss. Canopy also shocked investors when it stated that it's unlikely to meet its previous guidance of $250 million in revenue by the fiscal fourth quarter, which ends March 31.

Canopy stock isn't alone to face this massive beating, however. The sell-off is broad-based, as investors get increasingly impatient with companies that don't show a clear path to profitability.

Further damaging these marijuana stocks are some bad developments, such as a vaping-related health crisis to regulatory concerns.

On Friday, Aurora Cannabis reported its most recent quarterly earnings, which also disappointed. The marijuana producer said it will still reach profitability before "any of its peers," but the company's chairman, Michael Singer, didn't say exactly when that will happen. The news sent its stock plunging more than 18%.

Canopy is still on track

Canopy's Chief Executive Officer Mark Zekulin said the company is still on track to achieve its other targets, including positive adjusted earnings before interest, taxes, depreciation and amortization in Canada by fiscal 2021, and full profitability in three to five years.

Its expectation for gross margins above 40% by the end of the current fiscal year is “under pressure” but still “achievable,” Zekulin said in an interview with Bloomberg.

“There are several known factors causing the market problems,” he said. “As quickly as we see those get resolved, then the quicker we can get back on track for that $250 million, whether it’s a month late or a quarter late, and see all the other things follow suit.”

Overall, Canopy reported fiscal second-quarter net revenue of $76.6 million, which is well below the consensus estimate of $102.3 million and an EBITDA loss of $155.7 million. Analysts had expected an EBITDA loss of $96.1 million.

Despite this bloodbath in marijuana stocks, however, some analysts are still optimistic. **Cowen Inc.** analyst Vivien Azer recently boosted her U.S. sales outlook to US$85 billion by 2030 from a previous forecast of $80 billion.

In my view, the recent weakness is a great opportunity for investors who were on the sidelines to gain some exposure to weed stocks. The stock of Canopy Growth continues to remain my top pick and offers the best value.

Bottom line

Trading at $20.29 at writing, CGC stock at the level where it was trading in late 2017. The company could well sustain this negative phase and emerge unscathed because of to its leading position and the company’s partnership with **Constellation Brands**, which owns close to 40% stake in the company.

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