Why Did Canopy Growth (TSX:WEED) Stock Gain Almost 20% Yesterday?

Description

Shares of Canada's top cannabis company, **Canopy Growth** (TSX:WEED)(NYSE:CGC) rose close to 20% on November 20, 2019. The stock lost 33% in market value between November 8 and November 18, as the company reported underwhelming September-quarter results.

Canopy disappointed investors with less-than-estimated revenue and earnings. Poor earnings of several other cannabis companies resulted in mayhem in the last week. Canopy Growth stock is currently trading 67% below its record high, despite the 20% gain yesterday. This tells us something about the absolute carnage in the pot industry.

Investors were first concerned about sky-high valuations about marijuana stocks. However, the slow rollout of retail stores in key provinces weighed heavily on the top line of most pot companies. The investor exuberance witnessed prior to the legalization of marijuana for recreational and adult-use was soon replaced by fear.

Several cannabis stocks have decimated investor returns. So, why did Canopy Growth move higher yesterday? Has the stock bottomed out?

Bank of America analyst Christopher Carey certainly thinks so. According to a report from *The Fly,* Carey upgraded Canopy Growth from "neutral" to "buy" with a target price of $24. The analyst stated that Canopy stock has fallen by 38% since he last downgraded it due to growth concerns and a slowdown in orders.

Will Canopy Growth stock higher as we inch closer to FY 2020?

Though Carey expects the worst to be over for Canopy Growth, the cannabis industry is still plagued with structural and fundamental concerns. The pot industry is a highly regulated one and the opening of retail stores will be at a far lower pace compared to traditional stores.

We already know that illegal sales account for 40% of total recreational sales. The major reason for this is the high costs of product prices in the regularized market. Cannabis manufacturers included

Canopy will have to lower their cost of production significantly to drive shift the consumer buying away from the illegal market.

These two issues have resulted in massive inventory pile-ups for Canopy and peers. At the end of the September quarter, Canopy valued its inventory at $463 million. This accounts for close to 77% of its estimated fiscal 2020 (year ending in March) sales.

According to one Cannabis Benchmarks report, top pot manufacturers such as **Aurora Cannabis** and Canopy Growth sold just about 30% of their harvest in the September quarter. Canopy, in fact, had to write down $15.9 million of inventory in the fiscal second quarter of 2020.

What next for Canopy Growth and investors?

Though the demand is constrained at the moment, Canopy Growth continues to invest heavily in capital expenditures to increase its production capacity. Analysts expect Canopy Growth to spend $732 million in capital expenditures in fiscal 2020. This indicates the firm’s capex/sales ratio for 2020 stands at 177%.

Canopy, like most other pot players, is banking on future growth. Cannabis 2.0 products will most likely hit retail shelves by the end of FY 2019. The global medical marijuana market also continues to expand at a significant pace, especially in international markets, including Europe.

Cannabis investors have nothing more to lose. The stocks are trading at multi-year lows and have wiped out gains that drove them to record highs in the recent past. Is it time to bet again on these companies, which are still growing sales by triple-digit percentages?

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. Cannabis

TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Cannabis Stocks
2. Investing

Tags

1. Cannabis

Date
2025/08/21
Date Created
2019/11/21
Author
araghunath