



## Why Canopy Growth (TSX:WEED) Stock Gained 14% Yesterday

### Description

Shares of Canada's leading cannabis company **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) rose 14% on December 9, 2019. The stock closed trading at \$28.17 and has gained 15% this month.

Yesterday, Canopy Growth released a statement announcing the appointment of David Klein as the company's CEO. Klein will take over the reins from January 14 next year. He has served in leadership positions over the last 14 years with **Constellation Brands**.

Klein comes with vast amounts of experience in the consumer packed goods and beverage alcohol space and is well aware of the highly regulated markets in North America and Europe. Klein currently holds the executive vice president and CFO role at Constellation Brands.

He has served on the board of directors for Canopy Growth and is familiar with the current leadership team as well as the company strategy. Klein stated, "Canopy Growth sits at the forefront of one of the most exciting new market opportunities in our lifetime."

He added, "I look forward to working with the team to build on the foundation that has been laid, to develop brands that strongly resonate with consumers, and to capture the market opportunity before us. Together we will drive sustainable, industry-leading growth that benefits employees, shareholders and the communities in which we operate."

Earlier this year, [Canopy Growth removed](#) the company's founder and CEO Bruce Linton over mounting losses. It was widely speculated that he would be permanently replaced by one of Constellation Brand's executives.

Last year, Constellation Brands invested \$5 billion in Canopy Growth for a 38% stake in the company. Due to the recent bear run in the cannabis space, Constellation's investment is currently worth \$3.72 billion. The appointment of Klein as Canopy's CEO would have buoyed investors. This indicates that Constellation Brands is all-in with its investment and is backing the company to lead growth in the global cannabis space.

## Will Canopy Growth stock gain momentum in 2020?

Canopy Growth stock has fallen by 41% in the last 12 months. We have seen that cannabis stocks, including Canopy Growth, have been impacted by lower-than-expected demand due to the slow roll-out of retail stores across major Canadian provinces.

This led to Canopy Growth missing analyst revenue and earnings estimates in the last few quarters. The **CannTrust** scandal and the grave concerns over vaping products extended the bearish outlook.

Lastly, analysts and investors failed to account for the ongoing competition from Canada's illegal marijuana market that still accounts for 40% of cannabis sales. This has resulted in [high inventory levels for Canopy and peers](#), further pressuring profit margins.

In the last quarter, Canopy had to write down about \$15 million worth of inventory, which is about 20% of the company's quarterly sales. But is the worst over for Canopy and peers?

Canopy Growth stock is currently valued at \$9.8 billion, or 23 times fiscal 2020 (year ending in March). Analysts expect company sales to rise by 85.5% to \$420 million in fiscal 2020 and by 78.7% to \$750.6 million in 2021. Despite the revenue growth, analysts have forecast adjusted earnings to fall by 114% in 2020 and then rise 77.1% in 2021.

The company's cash balance stands at \$2.75 billion, which is enough to pay back its total debt of \$720 million. Canopy ended the September quarter with a negative operating cash flow of -\$681.7 million.

The widening losses remain a concern. Canopy still invests heavily in capital expenditures, which continues to impact free cash flow. In 2020, its capital expenditure is estimated at \$732 million or 178% of estimated sales.

It looks like the company is laying a strong foundation for long-term growth. But it will need to focus on stabilizing the bottom line sooner rather than later to keep investors interested.

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araghunath

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