Will Canopy Growth (TSX:WEED) Stock Bring Investors Cheer in the New Year?

Description

Marijuana stocks had a wild ride in 2019, and investors are wondering if pot stocks can shake off the hangover in 2020 and deliver big returns for investors.

Let's take a look at **Canopy Growth** (TSX:WEED)(NYSE:CGC) to see if it deserves to be on your contrarian buy list for 2020.

Volatile year

Canopy Growth's stock price started 2019 near $40 per share. It rallied as high as $70 in the spring and recently dipped below $20.

The share prices of all the Canadian cannabis stocks have had a crazy 12 months, primarily due to an unimpressive launch of the recreational cannabis market. Investors had high hopes for robust revenue and clear paths to profitability when recreational sales became legal in late 2018.

Unfortunately, the pot producers and their distribution networks weren't quite ready when the gun went off. Rather than sprinting to a great start, the sector stumbled out of the blocks.

Supply problems went from a lack of product to oversupplied in 2019 amid lacklustre sales after the initial hype. Companies misjudged the potential popularity of some cannabis products, and overstock issues have resulted in large quantities of unsold items being returned or, in some cases, discounted heavily to clear them out.

An absence of physical retail locations in key markets, such as Ontario and Quebec, also had an impact.

Company-specific challenges hurt the industry as well. Accusations of self-dealing and the discovery of unlicensed production indicated the sector was, in some cases, taking a wild-west approach. This hasn't gone over well with government authorities, who have tightened up regulations.

Vastly over-inflated revenue projections have also tainted the credibility of some management teams.

Investors, as a result, have stepped back while all the dust settles. Sky-high valuations are only sustainable if the market continues to believe that anticipated revenue growth will occur. As we saw in the second half of 2019, investors hit the reset button.

Canopy Growth is arguably the leader in the cannabis industry, but it too has had some issues. Revenue stalled out this year, while expenses continued to soar. In early July, the board fired the company's founding CEO and chairman.

You might ask how that could happen, but Canopy Growth's largest shareholder, **Constellation Brands**, started to become uncomfortable with the rising losses and decided there needed to be a leadership change. Constellation initially put its CFO in the chairman role and then decided to make him the new CEO.

Canopy Growth had a war chest of cash to spend after Constellation Brands invested $5 billion in the summer of 2018 at more than $48 per share. It started to deploy it on strategic acquisitions and setting up operations around the world to tap potential new markets, as governments adjust their marijuana regulations.

Pundits suggest Constellation Brands wanted to slow down the pace a bit and set a plan for reaching profitability.

Should you buy Canopy Growth?

Ongoing volatility should be expected, so I wouldn't back up the truck.

However, investors who are positive on the long-term potential for the sector should probably have Canopy Growth in their portfolios. The stock isn't cheap, but it is more attractive than it was earlier in the year, and any good news could bring a wave of new buyers in 2020 to push the share price higher.

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. Cannabis
2. Editor's Choice

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
2. Editor's Choice

Date
2025/08/24
Date Created
2019/12/25
Author
aswalker