Will Canopy Growth (TSX:WEED) Stock Rebound in 2020?

Description

The first full year of legalization was surprisingly rough for marijuana stocks across the board. The industry has collectively lost $21 billion (or roughly a third) of its combined market capitalization in 2019 alone. High-profile executives like Cam Battley and Bruce Linton lost their jobs while high-profile institutional investors were humbled by their performance in this sector.

However, this is a new year and there are signs that the cannabis sector could rebound stronger than before in 2020. In particular, the fallout from last year could help industry leaders like **Canopy Growth Corp.** (TSX:WEED)(NYSE:CGC) consolidate their position.

Here are three reasons I believe Canopy's stock could regain its peak valuation in the year ahead.

Cash reserves

At the time of writing, Canopy has nearly $2.75 billion in cash and cash equivalents on its books. That's plenty of money to keep production going as the distribution channels settle.

In fact, the company can now use its cash hoard to acquire smaller players that have suffered from last year's market shakeout. Smaller firms that have invested heavily in their production facilities and are now dealing with unsustainable debt could be acquired and consolidated by the cash-rich, low-debt market leader.

A market consolidation will further cement Canopy's position in this sector.

Cannabis 2.0 launches

Investors should expect edible cannabis products to have a larger pool of buyers and command higher margins. There are a lot more people willing to ingest cannabis products rather than smoke or inhale it. It's also easier to brand and market these items as recreational products for the average consumer.

With 13 cannabis-infused drinks and a line of cannabis-infused chocolate as part of its Cannabis 2.0. portfolio and a joint venture with Toronto rap star Drake, Canopy is already well ahead of the rest in this market. If the products have the desired impact on the company's margins, Canopy's timeline for profitability could be shortened considerably.

New management

A change in the C-suite is a critical catalyst for most companies. David Klein, the chief financial officer at Canopy's largest shareholder **Constellation Brands**, is expected to take over the chief executive officer role from Mark Zekulin, effective this week.

Considering the fact that Klein is a former financial executive, investors should expect the company's focus to shift to the bottom line going forward. A shift in strategy and a focus on financial efficiency is exactly what this company needs to unlock value.

Canopy's stock currently trades at just 1.86 times book value and 3.27 times cash per share. Considering the immense potential for global cannabis sales and Canopy's dominant position in the market, I expect Canopy's stock to surge back up to reflect its capacity for growth.

Bottom line

The fallout from last year could benefit industry leaders like Canopy Growth in 2020. Profitability is the firm's main issue at the moment, but with higher-margin products being rolled out this year and decreased competition from failed rivals, this issue could be resolved. Canopy has all the resources and market share it needs to rebound stronger than before and dominate the market in the new year.

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vraisinghani