3 Reasons Why Canopy Growth (TSX:WEED) Stock Gained 16% on Friday?

Description

Shares of Canada's cannabis giant **Canopy Growth** (TSX:WEED)(NYSE:CGC) gained 16% on February 14, 2020. The company announced its fiscal third-quarter 2020 results on Friday, and investors were buoyed by its performance.

So, what drove Canopy stock higher in the last trading session?

Revenue of $123.76 million

Canopy Growth reported revenue of $123.76 million. This was higher than consensus revenue estimates of $105 million. Canopy's revenue beat was driven by impressive performance across its cannabis and derivatives sales businesses.

Recreational revenue rose 10% in Q3, as Canopy benefited from balanced growth across its B2B and B2C channels. Its B2C revenue was up 16% sequentially. Medical sales were up 5% sequentially in Canada, as Canopy continued to widen its customer base that now stands at 76,700.

Its same-store retail sales were up 11% sequentially, as dried flower demand was strong across price ranges. In the medical cannabis space, sales of oil and soft gels account for 60% of domestic sales. Canopy is also gaining traction in Germany and the United States.

Company CFO Mike Lee stated, "International medical increased 3% quarter over quarter as our sales in Germany benefited from opportunistic sales to fill supply gaps created by a regulatory hold on products of another vendor."

Earnings of -$0.35

In the third quarter, Canopy Growth reported earnings per share of -$0.35 — 28.6% above consensus estimates of -$0.49. Canopy's improving bottom line and earnings beat pushed its stock price higher in the last trading session.

Canopy reported earnings significantly below estimates in each of the last three quarters prior to Q3. In the second quarter of 2020, Canopy's earnings of -$1.08 were 177% below estimates, while earnings of -$3.7 were 900% below estimates in the first quarter of 2020. In the fourth quarter of fiscal 2019, Canopy reported earnings 238% below estimates.

Canopy Growth's selling, general, and administrative expenses fell 14% sequentially, while its adjusted EBITDA loss of $92 million was significantly below EBITDA loss of $156 million in the September quarter.

Strong guidance

While Canopy Growth beat analyst revenue and earnings estimates in Q3, the company's encouraging outlook also drove the stock higher. In the fourth quarter, Canopy expects modest sequential revenue growth.

While competitors are slashing product prices to reduce inventory levels and increase cash balances, Canopy believes the premium cannabis space to experience robust growth. In Q3, Canopy's premium high-THC product sales were up 50%, which also gave a boost to profit margins.

The verdict

Canopy Growth aims to increase its cash balance at a fast pace and reduce cash burn. The company has identified opportunities to reduce expenses. It will also moderate capital expenditures to align with market supply.

Canopy Growth stands to benefit from the accelerated rollout of retail stores over the next two years. This will be a major tailwind for Canopy stock and peers. Canopy's solid Q3 results also impacted other pot stocks.

Shares of cannabis companies such as **Hexo**, **Organigram**, **Cronos**, and **Aurora Cannabis** were up 19%, 13.3%, 6.3%, and 5.1%, respectively, on February 14, 2020.

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