An Investment of $1,000 in Canopy (TSX:WEED) 5 Years Ago Would Be Worth This Much Today

Description

Leading Canadian legal cannabis cultivator **Canopy Growth** (TSX:WEED)(NYSE:CGC) has been roughly handled over the last year losing 51% as the pot bubble rapidly deflated. Even so, had you invested $1,000 in Canopy five years ago, it would now be worth a whopping $13,035, representing a stunning 1,203% gain for a compound annual growth rate (CAGR) of 67%.

There's growing speculation that pot stocks, most notably Canopy, are due to rebound in 2020, but there are signs that those types of gains are long over and won't be repeated.

Uncertain outlook

Cannabis stocks were in a massive bubble between the end of 2016 and mid-2019, when the companies delivered monster returns as speculative investors piled into the industry.

Now, the bubble has burst and the outlook for the global legal cannabis market is surrounded by considerable uncertainty. A key driver of the significant enthusiasm for cannabis cultivators at the height of the bubble were claims that the global market for legal marijuana consumption could be worth up to $500 billion annually.

Since then, many analysts have dialled down their forecasts with some predicting it could worth as little as $43 billion by 2024, well below earlier estimates.

There are a range of reasons for this, the key one being that Canada and Uruguay are the only countries to have fully legalized the recreational consumption of marijuana, with the long-anticipated wave of social use of the plant failing to materialize.

The reason for this is the considerable stigma associated with the use of cannabis after decades of being treated as an illicit substance. Combined with the experience of some U.S. states, where legal recreational use is linked to an increase in car accidents as well as marijuana-related hospital admissions, this makes many lawmakers reluctant to legalize its social consumption.

That doesn't bode well for Canopy, which is under considerable pressure after a string of large losses.

Nonetheless, the cultivator's stock soared in recent days because it reported revenue of almost $124 million for its fiscal third quarter 2020, beating the consensus analyst estimate by around 18%.

Revenue for the period was 49% greater than a year earlier, indicating that Canopy is experiencing strong sales growth, particularly as it focuses on ramping up its distribution network.

Canopy, however, announced a quarterly net loss of $124 million or $0.35 per share, its fourth consecutive quarterly loss and significantly worse than the $75 million quarterly profit reported a year earlier.

That indicates the cultivator is struggling to operate profitably in an uncertain market, where the demand for legal cannabis and derivative products globally is surrounded by significant uncertainty.

That will only worsen once marijuana is removed as a U.S. federally banned substance. It's only a matter of time before this occurs, and when it does, it will trigger a surge in the volume of U.S. cannabis cultivators and related product manufacturers, creating substantial competition in a limited market.

Another issue weighing on Canopy's attempts to become profitable is its high production costs. For the fiscal third quarter, Canopy reported inventory production costs of $2.74 per gram of cannabis harvested which, while 66% lower than a year earlier, was 29% higher compared to the previous quarter.

That cost is also significantly higher than many other jurisdictions and Canopy's competitors. Colombian cultivator **PharmaCielo** claims it can produce dried flower for as little as $0.05 per gram, while the average cost in the Andean nation is estimated to be around $0.10 a gram. Canadian grower **Organigram** reported for its fiscal first quarter 2020 an all-in cultivation cost of a mere $0.87 per gram.

Foolish takeaway

Canopy may be Canada's leading cannabis company and has recently released better-than-expected quarterly results, albeit there's a long way to go before it can achieve the promised sales and earnings growth.

For that reason, while it's the largest legal cannabis cultivator and has the backing of packaged liquor giant **Constellation Brands**, it's not the best play on the burgeoning legal cannabis industry.

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