Canopy (TSX:WEED) Warnings Could Signal Explosive Marijuana Growth in 2020

Description

The cannabis industry never ceases to amaze investors and analysts alike with its remarkable highs and devastating lows. Calling things less than pretty for weed stocks in 2019 is an understatement. Publically traded legal weed companies across the board declined drastically in 2019. Are you curious about what is happening right now?

Canopy woes might be over

I repeatedly talked about moving away from the cannabis sector to more secure investments. **Canopy Growth Corp.** (TSX:WEED)(NYSE:CGC) might be making moves to make me want to forget that.

The stock recently soared by over 15% last Friday, after the weed producer reported good results from its Q3 2019 earnings. The company reported a 62% sequential net revenue growth, seeing the company's net earnings increase to almost $124 million in the third quarter of fiscal 2019 that ended in December 2019.

The $123.8 million net earnings in the quarter beat analyst expectations at around $105.4 million. Analysts also expected that Canopy would report an adjusted EBITDA loss of $110 million as opposed to the $91.7 million. The overall operating costs also fell in the third quarter of fiscal 2019 for Canopy by 14% compared to the previous quarter.

Prior changes showing results

Canopy has made several changes in its recent past to adjust to the situation in the market for cannabis stocks. The company hired CEO David Klein after a six-month-long search to replace founder and co-CEO Bruce Linton.

David Klein says that despite the positive results, the company still has plenty to do so that it can pave a proper path toward profitability.

The company has been taking steps to reduce costs and prioritize the re-scaling of the business to a level where it can improve cash flow and profit margins. The company enacted reduced stock-based compensation in the current fiscal year as well as cost controls to this end.

Analysts expect that the recent quarterly earnings growth shows signs of life for the marijuana industry. The result demonstrates that Canopy can potentially produce gross margins in the region of 40% by the end of Q4 2019. New leadership and improved financial discipline have a great deal to do with the cleaner earnings report.

Improved cash flow in domestic and international markets

The weed producer reported better financial results across its local and international markets. The company has a leading 22% share of recreational weed sales in Canada. Its recreational pot business rose 9% from the previous quarter in the domestic market.

Canopy's revenue in international cannabis markets increased by 3% in Q3 2019 to reach $18.7 million. The company sold more than 13,000 kilograms of cannabis in the quarter, rising above the 10,913 kilograms recorded in the prior quarter.

Canopy also reduced the amount of marijuana it harvested from 40,750kg in the previous quarter to 29,920 kilograms — an indication that Canopy is tackling the oversupply issue.

Foolish takeaway

At writing, the Canopy stock is trading for $29.08 per share. While a far cry from its all-time highs, it was up 43.18 from its 52-week low in November 2019.

While there is some promise in the weed sector thanks to Canopy Growth's recent quarterly earnings report, but I would still be wary of how many eggs I would put in this basket.

If you want to consider investing in the weed sector, perhaps a speculative investment at best should be the way to go.

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