



Why the Canopy Growth (WEED) Stock Price Fell 15.5% in February

Description

Marijuana stocks certainly have enough problems these days without adding coronavirus fears to the mix. **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) is down almost 40% since January 2019. While it remains a leader in the cannabis industry, times are tough. Canopy Growth has felt the sting of a troubled legalization process in Canada and an oversupply of cannabis. Add to this a general bubble-like mentality in cannabis stock prices, and we have a disaster.

[Today, we can say that the bubble has burst.](#) This has left cannabis stocks sitting as mere specks of what they were in the height of the bubble. Canopy Growth's stock price continued its downward slide in February, falling 15.5% in the month. This was due to general market weakness made worse by an already vulnerable cannabis sector.

Canopy Growth's stock price falls on weak revenue growth

Third-quarter results showed once again that revenue growth is nowhere near what the market has been pricing in. Recreational cannabis sales increased 10% sequentially, while medical marijuana sales increased only 5%. Sales growth in the international medical market was also unimpressive, at 3% versus last quarter. Total net sales, however, were up big. Canopy reported a 62% increase in net sales, driven by its strategic acquisitions. Storz & Bickel, a German vaporizer company, was acquired in 2018. This Works, which sells sleep solutions and everyday skincare products, was acquired in May 2019. Both of these companies experienced sharp increases in revenue.

This brings us to the massive accumulation of inventory that we are seeing at Canopy Growth. In just eight months, from March 2019 to December 2019, Canopy saw its inventory rise 138% to \$622 million. This is an overhang that will remain problematic for Canopy Growth.

Yet, with an estimated 22% market share, Canopy Growth remains well positioned. This is an industry that continues to experience huge growing pains, but Canopy Growth is a leader.

Canopy Growth falls in February on more than coronavirus

fears

Fears about the spread of the coronavirus impacted all stocks across the board in February. The sharp drop in the S&P/TSX Composite Index (down 6.1%) is evidence of this. At times like these, we should think about the value that is created. When markets react to events like these, [it can be an opportunity to buy some quality stocks](#) at attractive valuations.

But this is not the case for Canopy Growth stock. While it was impacted by coronavirus fears, we can see that there are much bigger issues. Therefore, any weakness that the stock experiences as a result of macro factors is not necessarily a buying opportunity.

Canopy's stock price remains richly valued

With Canopy Growth expected to report net losses well into 2023, it is clear that the road ahead will not be easy. The stock trades at a price-to-sales multiple of 22 times. While this is a big improvement from a year ago, it remains high. On the bright side, recent quarterly results came in above expectations. This, as we know, is everything. The company's third-quarter net loss of \$0.35 was better than the consensus expectation for a \$0.49 net loss.

Foolish bottom line

In closing, I would like to remind Foolish investors of our belief in holding great businesses for the long term. While this belief remains intact, short-term stock price movements often create opportunities to create wealth. Therefore, we need to blend this long-term focus with an eye for short-term stock mispricings. Only then can we use both strategies in harmony. Our quest for financial freedom can be fulfilled.

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)

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