Coronavirus Market Meltdown: Buy Canopy Growth Stock for Defensive Pot Status

Description

Speculations on whether the cannabis industry is a defensive, non-cyclical consumer staple producer with resilient sales that remain strong during economic recessions will settle when financial results for the first calendar quarter of 2020 start creeping in.

Until then, should cannabis investors consider industry leader **Canopy Growth's** (TSX:WEED)(NYSE:CGC) stock a defensive play during the ongoing coronavirus-induced economic meltdown?

Canopy Growth stock and the coronavirus meltdown

The company has already shut down its company-run Tweed and Tokyo Smoke retail stores in response to the COVID-19 outbreak.

Store closures may not actually mean that the firm can't sell cannabis, as shipments should continue to the provinces, which then oversee last-mile sales and distribution to online store customers and to operational retailers.

However, the company's retail margins have gone out through the window. Tokyo Smoke and Tweed brick-and-mortar stores won't be capturing any retail margins for Canopy during the shutdown, which should hurt the income statement in some way.

That said, not all retail margins have been lost since the company's Tweed online store remains open. Perhaps home confined customers will all place their orders online. In that case, and as long as delivery channels cope with the increased parcel handling pressure, some margins may still be retained.

On a positive note, sales could even surge this quarter to support a defensive trade on Canopy Growth stock.

A potential sales boom?

I'm still of the strong belief that a 62% sequential growth in quarterly revenue isn't going to be easily repeatable in the near term. Accounting adjustments to prior quarter sales aided fiscal third-quarter readings.

But I wouldn't dismiss the prospect of an organic sales boom for this quarter.

New products have been launched since December 2019 as Cannabis 2.0 legalization took place, which should bring new revenue sources. Further, new retail stores were licensed and opened during the quarter too. These help push more volumes into local neighbourhoods.

Most noteworthy, there were media reports of panic buying and hoarding of pot in some U.S. states recently. The same could have happened in Canada as well.

Pot customers need some relaxing elixir as they stay confined to their homes. Depressing COVID-19 news keep pouring out of news outlets, and are scaring and stressing millions of people.

Marijuana regulars may need even more THC fixes than usual to calm their nerves. Order sizes and shipment volumes may have surged in March as the pandemic worsened.

This quarter's sales volumes numbers could actually be greater than they should normally have been.

A strong and defensive medical sales run-rate

Canopy reported a staggering growth in international medical cannabis sales over the past two quarters to over $18 million, which was impressive.

Personal budgetary constraints may not impact pharmaceuticals demand during economic crises. Increased medical cannabis shipments to Germany could help stabilize total revenues going forward.

Patients' orders are likely to continue getting fulfilled as marijuana retail stores and cannabis producers are declared essential workplaces during mandatory lockdowns to fight the spread of the Novel Coronavirus. Medical sales should do fine.

Canopy Growth stock: best recession play?

We have yet to see whether marijuana is a defensive industry, albeit it has some qualities and attributes that support the notion. If you're considering making a defensive investment play in the marijuana sector, then Canopy stock ranks high among the limited investment-grade choices today.

The company is undergoing a strategic transformation which promises to reduce its production overheads, cut operating costs and improve earnings margins.

Unlike its industry peers, the company remains one of the most capitalized and liquid names. This is a critical attribute that it shares with only a few names like **Aphria** and **Cronos Group**. This balance sheet strength should help the company's stock to outperform most peers during a recession.

That said, the company sells hemp and cannabis accessories too. Investors should consider the fact that these two segments may not be as defensive as pure recreational pot and medical marijuana, however.

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. Cannabis

TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Cannabis Stocks
2. Investing

Tags

1. Cannabis

Date
2025/08/21
Date Created
2020/03/29
Author
brianparadza