Canopy (TSX:WEED) Stock: Avoid it Like the Plague?

Description

The legal weed industry in Canada has become a constant source of frustration for investors lately. The legalization of cannabis for recreational use in Canada led to a boom in the industry. Still, the industry's inability to live up to its promise due to a slew of factors has led to a drastic decline.

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Canopy Growth (TSX:WEED)(NYSE:CGC) stock in particular is a worrisome entity in the sector. It used to be the favourite stock in the cannabis sector, but everything has changed. The stock plummeted after reaching all-time highs back in October 2018 after the legalization was announced. The stock has struggled to come anywhere near those figures ever since.

With the current market crash due to the COVID-19 pandemic, investors are unloading their shares in stocks across the board. If there is one stock people will gladly get rid of, it is anything from the legal weed sector. Canopy happens to be the most popular pick among weed stocks. With the risk involved in the industry, it is not surprising to see people avoid the stock.

I will discuss Canopy Growth and what my take is on the once loved cannabis giant.

The mighty have fallen

Canopy Growth, at one point, was the mega-giant when it comes to the weed industry. It skyrocketed an astounding 9,364% from its initial public offering to reach its highest share price in October 2018. The cannabis company's initial focus was on selling medicinal marijuana. Since the legalization, it has expanded into the recreational marijuana industry.

The sale of medicinal marijuana accounts for more than 70% of the company's gross sales now. The situation was not always this bad for the weed giant. The legalization of recreational marijuana opened doors to many opportunities and even more troubles for the legal weed sector.

With the ongoing market crash, the stock has fallen well over 70% from peak to trough within the space of 12 months. Investors were already on the fringe with the company. All the reinvestment into infrastructure, research, and development did not yield any notable results. The market crash has crushed any possibilities of that happening soon.

Among many worrisome moves, Canopy Growth recently announced significant cuts that have sent the stock tumbling even further. The company had to slash its workforce and take multi-million-dollar writedowns. A month on, WEED announced it would lay off 85 more full-time employees.

Canopy has also closed down operations in several countries worldwide and shut down many of its facilities.

What the future holds

The CEO of Canopy, David Klein, said that the changes his company is making today are in line with the company's priority to make a stronger organization that will continue to be an innovator in the industry.

All the initial excitement surrounding Canopy has subsided. The hope was that countries around the world would legalize recreational marijuana. Canopy was preparing to be the most substantial entity to establish a presence in those markets once legalization took place.

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The company made a significant investment in **Acreage Holdings** in April 2019, relying on a legalization move that never came. The COVID-19 pandemic has put aside any hopes for legalization for the foreseeable future.

Amid all the issues the company is facing, the black market weed industry continues to be a thorn in its side. While Canopy was hopeful that people would resort to buying legal weed through the proper channels, the black market still dominates sales.

Foolish takeaway

At writing, Canopy is down 64.85% from the same time a year ago. The company is busy cutting costs and trying to figure out how to cope with the current landscape. With the situation becoming increasingly dire for the former darling stock, I think it would be better to avoid the stock like the plague.

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