What Should Investors Expect From Canopy Growth (TSX:WEED) Stock?

Description

Cannabis investors punished **Canopy Growth** (TSX:WEED)(NYSE:CGC) after a worse-than-expected earnings report revealing deep cracks in the industry. Canopy plunged as a result. For once, though, the drop looks less like a value opportunity than a wake-up call. But what's the outlook for this cannabis stock, and why are investors so divided on its outlook? Let's take a look.

Is Canopy stock a falling knife?

Canopy certainly looks more attractive in terms of value this week after its post-earnings correction. Investors who had been sitting on the fence with this name may want to eye a 23% five-day drop as a value opportunity. Its May 29th earnings report contained some nasty surprises that saw its $30 share price drop to the $23 in the blink of an eye. Those losses gradually worsened, with Monday seeing a 7.3% plunge.

However, a quarterly loss of $1.3 billion is unlikely to be something an investor should tolerate in the current high-risk climate. Far from an invitation to invest at a discount, that nearly 25% drop looks both justified and alarming. However, there is such steep growth potential in the cannabis space that a quick review of Canopy's main selling points seems warranted this week.

The pros are there, after all. Canopy is a three-stream cannabis pick, meaning that it operates in the medicinal and recreational pot space, as well as the potentially high-growth hemp space. Its brands have become familiar, such as Tweed, Spectrum Therapeutics, and CraftGrow. Its licences span more than a dozen regions. U.S. legalization would bring steep growth for Canopy via its Acreage Holdings deal.

A new stripped-down, near-term focus

Canopy's May 29th earnings report contains some key information regarding how the company is restrategizing to capitalize in the current market. Notably, Canopy will be focusing on markets and product categories with the "highest and most tangible" near-term profit opportunities. The focus will be on Canada, the U.S., and Germany. Recreational and medical cannabis will be emphasized.

This is interesting for a number of reasons. First of all, CBD does not seem to feature in this strategy, meaning that hemp is potentially not high on the near-term agenda. Secondly, the strategy also includes an “asset-light approach” to emerging areas outside of the core of North American/German markets. Investors should watch for improvement during the current quarter this stripped-down approach delivers the goods.

With its next report due around August 10, all eyes will now be on summer sales. While analysts are currently giving Canopy a “hold” signal, there is nevertheless some steep upside potential here. Even the median outlook for the next 12 months pegs Canopy at 13.5% share price growth. The bullish consensus is even more appealing, with the potential for appreciation of 52.7% over the same period.

But Canopy spooked investors, crashing out of May on a distinctly sour note. This is not the time for sudden shocks to the system. The markets can absorb bad news and a bearish outlook. What they can’t handle so well, especially during current economic conditions, is surprise. Investors will have to weigh that upside potential against the possibility of further sharp corrections.

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