Canopy Growth (TSX:WEED): Is This Pot Stock a Buy After Recent Gains?

Description

Several cannabis companies are gaining momentum in recent times. On July 27, **Aphria** stock gained over 12%, while shares of **Canopy Growth** (TSX:WEED)(NYSE:CGC) gained close to 15% yesterday.

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Aphria stock rose on the back of an analyst upgrade. Cantor Fitzgerald analyst Pablo Zuanic named Aphria as a top cannabis stock and raised its target price from US$7.86 to US$8.23. Zuanic forecast Aphria sales to increase by 25% sequentially in its fiscal fourth quarter and expects the pot giant to lower expenses as well.

It seems like this optimism has driven shares of marijuana peers higher in the last two trading sessions. Shares of Canopy Growth are up 17.7% this week, while Aphria and **Aurora Cannabis** have returned 17% and 11.4%, respectively, in this period.

Analysts also expect the U.S. to decriminalize marijuana at the federal level if Joe Biden wins the presidential race later this year. It will be a massive boost to Canopy Growth and peers if cannabis is legalized south of the border, which may easily push stock prices to record highs.

While the presidential elections are unpredictable, let's take a look at the fundamentals of Canopy Growth to gauge if it remains a good pick at the current price.

Canopy Growth continues to be impacted by structural issues

In early 2019, Canopy Growth's former CEO Bruce Linton forecast the company will generate $1 billion in annual revenue over a 12-month period in fiscal 2020. However, the company sales for 2020 was $439.6 million, well short of Linton's target.

The Canadian companies have been grappling with lower-than-expected demand due to the slow rollout of retail stores as well as competition from a thriving black market. This has increased inventory levels, resulting in million-dollar write-downs and mounting losses.

Canopy Growth remains one of the top pot companies in the world and is backed by beverage giant **Constellation Brands**

, which has a 38.6% stake in the firm. This investment means Canopy is better poised than peers in terms of liquidity, which will help it through the ongoing downturn.

Canopy ended fiscal 2020 with a cash balance of almost $2 billion, giving it enough room to improve profit margins over the upcoming quarters.

Over the last few months, several companies have laid off employees due to the ongoing pandemic. Canopy Growth cut its workforce by 800 employees in a restructuring effort aimed at improving the bottom line. It also exited a few international markets that were deemed unprofitable and confirmed another round of layoffs last week.

The long-term growth story remains intact

Canopy Growth stock is a solid buy, given the expanding addressable market and its huge domestic presence. The introduction of Cannabis 2.0 products will be another key driver for Canopy over the upcoming quarters.

Last week, Canopy announced it is making a big push in the U.S. cannabidiol market with the launch of ShopCanopy.com, an online store for CBD products.

It may seem that the worst is over for marijuana companies, as they now focus on improving liquidity and profitability. If you are bullish of an industry-wide rebound, you can look to add Canopy Growth to your portfolio.

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