Why Canopy Growth (TSX:WEED) Stock Fell Over 11% Last Month

Description

Shares of marijuana heavyweight **Canopy Growth** (TSX:WEED)(NYSE:CGC) fell over 11% in the month of September. The stock closed trading at $19.09 on September 30 and is currently trading at $18.7.

Canopy Growth stock was impacted last month after pot peer **Aurora Cannabis** reported less-than-impressive fiscal fourth-quarter results. Aurora reported a sequential decline in Q4, a billion-dollar goodwill impairment write-down, and provided tepid guidance for Q1 of fiscal 2021.

Cannabis companies have been under the pump for close to 20 months now and burnt significant investor wealth. Canopy Growth stock has lost close to 75% since it touched a record high in September 2018, just before Canada legalized marijuana for recreational use.

The sector has been impacted by a thriving black market, lower demand, and the COVID-19 pandemic. As cannabis is a highly regulated industry, the slow rollout of retail stores in major Canadian provinces has impacted demand. This led to rising inventory levels as well as negative profit margins.

So, can Canopy and other stocks in the cannabis space stage a comeback in the fourth quarter of 2020 and beyond?

A look at Canopy Growth's recent quarterly results

Canopy Growth announced its first quarter of fiscal 2021 results (ending in June) in August and reported net revenue of $110.4 million, which indicated a sequential growth of 2% and a year-over-year growth of 22%.

However, Canopy also recorded a net loss of $128 million, or $0.30 per share, in Q1. Comparatively, analysts forecast Canopy's net sales at $112 million and a loss of $0.35 per share.

Canopy's medical marijuana sales in Q1 rose 54% to $34 million, while its recreational segment reported an 11% decline in sales. The marijuana space is a high-growth space that has attracted several players, making it an extremely crowded market.

While Canopy's quarterly results were better than that of Aurora Cannabis, its sales growth remains uninspiring.

WEED is backed by Constellation Brands

Beverage giant **Constellation Brands** has a 38.6% stake in Canopy Growth and has invested over $5 billion in the latter. This meant Canopy ended the June quarter with over $2 billion in cash when other peer companies are struggling with liquidity and continue to raise equity capital, thereby diluting shareholder wealth.

Canopy Growth has Constellation's ex-CFO, David Klein, at the helm (since the start of 2020), and he is running a tight ship. Klein has focused on improving profit margins as well as Canopy's cost structure to reduce cash burn.

Canopy exited operations in South Africa and Lesotho and also closed facilities in Canada and the United States. However, Canopy Growth is expected to remain unprofitable according to analyst estimates, and its loss per share is forecast to narrow from $1.61 in fiscal 2020 to $1.03 in fiscal 2022.

The Foolish takeaway

Canopy Growth is optimistic about the growth potential in the derivatives space that includes products such as vapes, concentrates, beverages, and edibles. The recreational derivatives products accounted for 13% of the company's business-to-business sales in the June quarter.

Canopy is also leveraging Constellation's expertise and is looking to expand the distribution of ready-to-drink non-CBD hydration sports drinks south of the border. Further, Canopy aims to establish a retail footprint in the high-growth CBD market in the U.S.

Will the company's focus on cost savings, new product lines, and derivative products help it outperform the broader markets in 2021?

CATEGORY

1. Cannabis Stocks
2. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn

4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Cannabis Stocks
2. Investing

Date
2025/08/26
Date Created
2020/10/05
Author
araghunath