Is Canopy Growth (TSX:WEED) Stock a Buy Right Now?

Description

Canadian cannabis companies continue to underperform the broader markets in 2020. The extended bear run in pot stocks started in early 2019 and has burnt massive investor wealth. For example, marijuana heavyweight **Canopy Growth** (TSX:WEED)(NYSE:CGC) is trading at $32, which is 55% below its record high.

However, since the start of October, Canopy Growth stock has gained 71% on the back of its quarterly results and a Joe Biden win. Let's take a look to see if you should buy this cannabis stock right now.

Canopy Growth reported record Q2 sales

Last week, Canopy Growth disclosed its fiscal second-quarter of 2021 results and reported revenue of $135.3 million — year-over-year growth of 77% and sequential growth of 23%. Revenue was also higher compared to the analyst forecast of $117.2 million.

While Canopy's strong domestic sales were the highlight in the September quarter, its international sales were down 3% to $17.5 million. The company attributed this decline to a packaging supply issue as well as sluggish growth coupled with an increase in competition in Germany's dried flower market.

Canopy Growth is one of the largest brands in Canada's recreational marijuana space. It ended Q2 with a market share of 15.5%, an increase of 200 basis points year over year. The company's market share grew by 190 basis points in Ontario which is Canada's most heavily populated province while it lost market share in Alberta.

Canopy is also dominating the Cannabis 2.0 beverage space in Canada with a 54% dollar share. It has launched five THC cannabis beverages and recently entered the CBD beverage vertical as well.

Earlier this month, in an interview with CNBC's *Mad Money*, Canopy CEO David Klein said cannabis-infused edibles and drinks would be key revenue drivers for the firm in the upcoming decade.

Canopy's narrowing loss a key metric

Despite record revenue in Q2, Canopy Growth continues to post a net loss. In Q2, its net loss stood at $96.6 million, significantly lower compared to its net loss of $128 million in the previous quarter. Its adjusted EBITDA loss was $85.7 million compared with an EBITDA loss of $150 million in the prior-year period and a loss of $92 million in the June quarter.

Canopy is accelerating its path towards profitability, and this bottom-line improvement was cheered by investors. Analysts expect Canopy's net loss per share to improve from $1.61 in fiscal 2020 to $0.78 in 2022. This means it will take the company at least three years to report an adjusted net income.

Klein has trained his guns on improving Canopy's bottom line, and the company has deployed several cost-cutting measures this year. The management has identified between $150 million and $200 million in cost-savings opportunities across its manufacturing and operating verticals.

The Foolish takeaway

Canopy Growth is one of the largest cannabis companies in the world. Its leadership position makes the stock a relatively safe bet in a sector that is grappling with a number of structural issues. It is also backed by **Constellation Brands** and does not have to worry about its high cash burn at the moment.

The legalization of marijuana south of the border will be one of the major drivers for Canopy and its peers. However, this is something that is not in the company's control.

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