Canopy Growth (TSX:WEED) Stock Soars 6% on Strong Q3 Earnings Report

Description

Canopy Growth (TSX:WEED)(NYSE:CGC), the world's largest pot producer, reported its third-quarter results on Tuesday, which beat estimates. Canopy expects to turn a profit in the second half of 2022 after aggressive cost cuts and increased demand for cannabis products helped cut losses in the third trimester. The stock rose by almost 6% following the news.

Demand for cannabis products is rising

Since the start of last year, Canopy and rivals like **Aphria** and **Aurora Cannabis** have cut expenses by shutting down plants, cutting back on indoor growing, and laying off hundreds of employees.

Canopy is also placing its hopes on the large U.S. market, which is likely to open up, thanks to the favourable opinion of the Joe Biden administration on the cannabis industry.

Market conditions have also improved. As the pandemic shut down several businesses and economies, demand for cannabis products such as gelatin bears, brownies, and drinks, known for their links to relaxation, increased.

Canopy, which sells a line of products from dried flowers to chocolates and weed-mixed drinks, said its net sales rose 23% in the quarter to $152.5 million.

Its adjusted EBITDA loss fell from $97 million to $68.4 million in the third quarter, although asset impairments and one-time restructuring costs led the company to record a loss of $829.3 million, up from $109 million in the year-ago quarter. Expenses fell 15% to $144.1 million.

Analysts polled by *Bloomberg* had expected Canopy to report revenue of $147.6 million and an adjusted EBITDA loss of $71.1 million.

The cannabis company says the loss was $2.43 per diluted share for the quarter ended Dec. 31, compared to a loss of $109.6 million or $0.26 per share a year earlier.

According to Canopy, its last-quarter results included $416 million in impairment charges, restructuring, and other related charges, plus $291 million resulting from non-cash changes in fair value, mainly attributable to the higher share price of the company.

Canopy announced in December that it would shut down operations at five facilities across the country and lay off more than 200 workers in a bid to cut costs.

Net revenue for what was the company’s third quarter was $152.5 million, up from $123.8 million in the same quarter a year earlier.

Cannabis net revenue totaled $98.8 million, up from $90.4 million a year earlier, driven by an increase in Canadian recreational and international medical sales. Other revenues increased to $53.7 million from $33.4 million.

Canopy Growth expects to turn a profit in 2022

Canopy expects to achieve positive adjusted EBITDA in the second half of 2022 and an adjusted EBITDA margin of 20% for the full year 2024. It also expects positive operating cash flow for all of year 2023 and positive free cash flow for the whole of 2024. Projections are based on Canopy’s cost-reduction efforts and on the forecast of a compound annual growth in net sales of 40 at 50% between 2022 and 2024.

“We are executing against our cost savings program, with several initiatives already completed and more underway to build a leaner and more agile business,” Chief Financial Officer Mike Lee said in a statement.

Shares of Canopy Growth have almost doubled in value since the start of the year. With a price-to-sales (P/S) ratio of 43.6, the stock has become expensive. It might be best to wait for a pullback before buying shares.

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