



Should You Buy Canopy Growth (TSX:WEED) After its Impressive Q3 Performance?

Description

Canopy Growth ([TSX:WEED](#))(NYSE:CGC) [reported](#) its third-quarter earnings of fiscal 2021 yesterday. It had outperformed analysts' revenue and adjusted EBITDA expectations. Further, the company's management provided a promising outlook for the next three years, which led the company's stock price to rise by 11.9%.

However, I had [advised buying the stock on February 2](#), ahead of its earnings. If you had purchased the stock, you would be sitting on over 17% returns by now. Meanwhile, should you buy the stock at these levels? First, let's look at the company's third-quarter performance and its growth prospects.

Impressive third-quarter performance

Canopy Growth's revenue came in at \$153 million, beating analysts' expectations of \$147.6 million. Year over year, its top line grew 23%, driven by higher Canadian recreational revenue and growth in international medical cannabis sales. Additionally, higher sales in S&B vaporizers, health & wellness products of This Works and BioSteel contributed to its overall revenue growth.

The company's market share in the Canadian recreational market improved 30 basis points from the previous quarter amid strong performance from its flower and beverage categories. The growth in its value flower segment drove its market share in the flower category by 180 basis points on a sequential basis to 19.2%. Despite the new entrants, the company continued to dominate the beverage market, with its market share still standing at 34%.

Canopy Growth's adjusted EBITDA losses improved from \$97 million in the previous year's quarter to \$68 million. Higher revenue and lower operating expenses led to an improvement in the company's adjusted EBITDA. The company's SG&A expenses declined by 15% on a year-over-year basis due to lower advertising and marketing expenses, a decrease in R&D expenses and a reduction in the cost associated with corporate restructuring activities. At the end of the quarter, its financial position looked healthy, with its cash and cash equivalents standing at \$1.59 billion.

Growth prospects and outlook

Canopy Growth is focusing on strengthening its core markets. It recently conducted market research to understand customers' insights and develop innovative products that meet customer needs and expand its market share. Based on these insights, the company has planned to introduce new product offerings across premium, mainstream, and value flower segments in the coming months.

Amid increased legalization, the U.S. cannabis market offers strong growth prospects. So, Canopy Growth is building its infrastructure, including its manufacturing footprint in the country. Further, the company is expanding the distribution of its strategic business units, BioSteel, Storz & Bickel, and This Works, which could drive the company's sales going forward. Its CBD products, launched in association with Martha Stewart, have seen strong customer demand. Meanwhile, the company is looking at expanding its distribution also.

Further, given its arrangement with **Acreage Holdings**, Canopy Growth is well positioned to expand its business in the U.S. once the federal government legalizes cannabis. So, the company's growth prospects look healthy.

Canopy Growth's management has also set a promising outlook for the next three years. The management expects its revenue to grow at a CAGR of 40-50% from fiscal 2022 to fiscal 2024. The company could report positive adjusted EBITDA in the second half of fiscal 2022 and 20% of adjusted EBITDA margin in fiscal 2024. The management hopes to post positive operating cash flows in fiscal 2023 and positive free cash flows in fiscal 2024.

Bottom line

Amid the increased interest in cannabis stocks, Canopy Growth is up over 99% for this year. The surge in its stock price has also raised its valuation. Its forward price-to-sales multiple currently stands at 18.9. Although its valuation looks expensive, I believe the rally could continue, given its high-growth prospects and favourable market condition.

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