Down 60% From Record Highs, Is Canopy Growth Stock a Buy?

Description

Canadian cannabis stocks continue to underperform the broader markets. Pot stocks on the **TSX** have been decimated in the last 30 months as the sector has been impacted by a slew of structural issues that were exacerbated during the pandemic. However, as economies reopen and normalcy returns, is it time to look at marijuana giants such as **Canopy Growth** (TSX:WEED)(NYSE:CGC) right now?

Shares of Canopy Growth are trading at $29.8, which is 60% below its all-time highs. Does it make WEED stock the ultimate contrarian bet given that it's part of a rapidly expanding market?

Canopy Growth reports disappointing Q4 results

In the fourth quarter of fiscal 2021, Canopy Growth reported sales of $148.4 million, an increase of 38% year over year. It reported a net loss of $616.7 million or $1.85 per share which was significantly narrower than its loss of $1.3 billion, or $3.72 per share in the year-ago period. Analysts expected the company to post revenue of $151.8 million and earnings of $0.26 per share in Q4.

Canopy Growth's adjusted EBITDA stood at $94 million, lower than its loss of $102 million in the prior-year period. The company also ended the quarter with a cash balance of $2.3 billion providing it with enough leeway to improve profit margins going forward.

In Q4, Canopy Growth's recreations sales were up 39% at $61.1 million while B2B sales soared 40% to $43.3 million and B2C sales increased 37% to $17.8 million. It maintained the top position in the flower category in Canada's recreational market with a share of 19%. It also led the all-in-one vapes and cannabis beverages segments. Growth in recreational sales was offset by medical marijuana revenue which grew 1% year over year to $13.7 million, accounting for 9.2% of top-line.

However, investors should note that its net loss was driven by a non-cash fair value charge of $292 million related to impairment and restructuring charges as well as $75 million related to streamlining of its Canadian operations. The pot heavyweight confirmed that it remains on track to achieve positive adjusted EBITDA in the second half of fiscal 2022 as it continues to focus on supply chain improvements, cost savings, and downsizing initiatives.

What next for WEED investors?

Canopy Growth's inventory impairments and asset write-offs meant its gross margins slumped to 17% in Q4, from 26% in the year-ago period. However, its free cash flow loss improved by 57% to $630 million.

Canopy Growth will also complete its acquisition of **Supreme Cannabis,** making it the third-largest cannabis company in Canada with a share of 14% in terms of sales volume. In the quarter ended in March, Supreme Cannabis sales were up almost 40% at $13.6 million and posted its third consecutive quarter of positive EBITDA. The combined entity expects to realize $30 million in cost synergies in the next two years following the merger.

Canopy Growth also has $1.6 billion in long-term debt. Additionally, it will also need to account for $615.7 million with respect to Supreme's warrant liabilities and another $435 million in other liabilities.

Canopy Growth has been troubled with profitability issues and massive write-downs. It needs to tick multiple boxes in order to win investor confidence.

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