



Could Canopy Growth Be a Millionaire-Maker Stock?

Description

As a rule of thumb, a stock that increases your investment by 10 times within 20 years can be considered a millionaire maker. Canadian cannabis heavyweight, **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) has surged over 700% in the last 10 years but is also trading 77% [below record highs](#) right now. Let's see if the marijuana stock is poised to turn \$100,000 into \$1 million by 2040.

Canopy Growth fails to impress investors

Canadian cannabis companies have been impacted by tepid revenue growth and widening losses over the last several quarters. The rise in competition, a thriving black market, the ongoing pandemic, and overvalued acquisitions have all contributed to the stock's underperformance in the last two years.

In the fiscal first quarter of 2022, Canopy Growth reported revenue of \$136 million, which was up 23% year over year. Sales were driven across business segments as recreational revenue grew 35% to \$60 million. Medical marijuana sales rose by 26% to \$73.5 million, while the top line for other consumer products grew by 39% to \$43 million. Comparatively, international cannabis sales were down 8% at \$19 million.

Canopy Growth expanded its cannabis derivatives or edibles product portfolio in Q1. The company launched Tweed Strawberry gummies in Q4 and now enjoys the second-largest market share in this product category in Canada. Canopy Growth now aims to expand its assortment of edible products in the upcoming quarters.

Canopy Growth reported a net income of \$390 million in Q1 of fiscal 2022. But investors should understand that the profit was due to non-cash fair-value changes that amounted to \$601 million. Cannabis producers make constant accounting adjustments related to inventories, which might lead to a profit on their financial statements.

But Canopy Growth actually reported an EBITDA loss of \$64 million in the quarter, which was narrower than its prior-year loss of \$92 million. The company's management assured investors that its on track to achieve positive adjusted EBITDA by the end of fiscal 2022.

U.S. expansion will remain key

If Canopy Growth gains 10 times [in market cap](#), it will be valued at \$64 billion. A key driver of stock price appreciation will be the prospects of marijuana legalization at the federal level south of the border.

Canopy is backed by alcohol giant **Constellation Brands**, and it has also partnered with Acreage Holdings to gain traction in the world's largest marijuana market. But the road to expansion will not be easy for Canopy Growth, as it will have to compete with domestic stalwarts such as **Green Thumb**, **Cresco Labs**, and **Columbia Care**, among many others.

Until the U.S. legalizes pot for recreational and medical use at the federal level, Canopy Growth can expand in the country by launching products without THC (tetrahydrocannabinol), which is the psychoactive element of cannabis. Last month, it announced the launch of its first-ever CBD vape product called whisl in the U.S.

However, the hemp-based CBD market does not provide a massive growth opportunity for Canopy Growth, and its also [not a new business segment](#) for the company. Currently, international sales that also include revenue from the U.S. accounted for 14% of total sales in Q1.

The final takeaway

We can see that Canopy Growth is not fundamentally strong and will need to narrow its losses at an accelerated pace to win investor confidence. Its top-line growth has also been inconsistent, and a lot depends on the company's potential to expand in other international markets once legalization gains pace.

Despite its massive underperformance, Canopy Growth stock is valued at a forward price-to-sales multiple of more than nine times, which is extremely steep for a loss-making company. There is a chance for Canopy Growth to stage a comeback going forward, but the investment carries significant risks.

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