Can Canopy Growth Stock Outperform its Cannabis Peers This Fall?

Description

Today, it may seem silly to ask whether **Canopy Growth** (TSX:WEED)(NYSE:CGC) could outperform its peers this fall. Indeed, Canopy Growth stock is currently down approximately 9% over yesterday's close at the time of writing on some pretty heavy volume.

This move comes as the company reported earnings today. Indeed, earnings tend to introduce a significant amount of volatility to any stock. However, the fact that Canopy Growth stock has moved so sharply to the downside is not good for investors thinking about this company's near-term prospects.

That said, Canopy growth stock remains a top growth play for investors thinking long term. Let's dive into the pros and cons of where this cannabis company could be headed.

Canopy Growth stock hit by a dim outlook for 2022

Canopy Growth reported a loss that narrowed to $0.03 per share from $0.09 per share a year earlier. This was also better than analyst expectations of a loss of $0.20 per share.

So, investors may wonder why the market is throwing such a tantrum with WEED stock.

Well, the company also announced slower-than-expected growth expectations for 2022. In particular, the company notes that the second half of fiscal 2022 is likely to be unsteady. Canopy will be focusing on shoring up its recreational business, with new product launches and a focus on edibles (we'll get to that in a second) expected to improve market share.

Canopy has been losing steam of late, with other cannabis players seemingly eating some of this company's lunch. One of the largest cannabis producers in Canada since inception, Canopy continues to be a leader in this sector. However, these earnings point to what investors don't want to hear about — the potential for slowing growth.

Wana deal to boost market dominance

That said, there's certainly also room for bulls to be bullish on this stock.

As mentioned, the edibles space is a key competitive area Canopy wants to dominate. Canopy Growth is set to acquire U.S.-based cannabis edible manufacturer Wana to expand its presence in the U.S. and Canadian cannabis market. Wana is one of the most prominent cannabis-infused gummy manufacturers in North America. According to Canopy, Wana is the largest supplier of gummy in the Canadian market. It is present in 12 U.S. states and plans to expand its footprint in nine more.

Edible cannabis products hold approximately 5% market share of the total Canadian recreational cannabis market. Edibles have generated approximately $150 million in revenue over the past 12 months alone. Notably, Wana has garnered $49 million in the Canadian market in the past year. That's good for roughly one-third of the overall market.

The Canadian cannabis company stated that it would make an upfront cash payment worth $297.5 million to acquiring the option to purchase Wana. This U.S.-based cannabis edible maker comprises of three different entities: Wana Wellness LLC, The Cima Group LLC ,and Mountain High Products LLC.

Canopy intends to exercise these options once the U.S. government legalizes cannabis. It will also pay 15% of the market value for each of its entities with cash, stock, or a combination of both.

According to CEO David Klein, this deal will strengthen Canopy's position as the leading cannabis company in both Canada and the United States. Moreover, this deal will also provide Canopy Growth with a direct pathway to the U.S. market.

Bottom line

Cannabis stocks are usually risky and volatile in nature. However, Canopy Growth is one of the most stable and largest names in this sector. The company's big plans to enter the cannabis edibles market will help it capture significant market shares in the United States.

Although the cannabis player has cast a dim light on the outlook for this sector moving forward, there's certainly reason to like Canopy Growth stock at these levels. Accordingly, long-term growth investors have quite the conundrum on their hands with this stock.

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