Down Over 40%: Is Canopy Growth Stock a Buy in 2021?

### Description

Canadian cannabis stocks continue to underperform the broader markets in 2021. While the **S&P 500 Composite Index** has surged close to 27%, Canopy Growth stock is down almost 43% year to date. In fact, shares of **Canopy Growth** (TSX:WEED)(NYSE:CGC) are now down 76% from all-time highs.



But does the pullback make Canopy Growth a top contrarian bet or will the company continue to disappoint shareholders?

## Canopy Growth reported less than impressive earnings

In the second quarter of fiscal 2022 that ended in September, Canopy growth reported a net loss of $16 million. While this was an improvement compared to the loss of $96 million in the year-ago quarter, it was primarily due to non-cash fair value changes that amounted to $233 million rather than any tangible improvement in Canopy's business operations.

Further, Canopy Growth sales were down 3% year over year at $131.37 million, which is less than ideal for a company that's part of an expanding addressable market. If we adjust for Canopy's recent acquisitions, its sales would have declined by 13% year over year in Q3.

In fact, Canopy's sales have fallen in each of the last three quarters on a sequential basis after the pot heavyweight reported record revenue of $152.5 million in the quarter ended in December 2020.

Another discouraging fact that spooked investors? The negative gross margin reported by Canopy Growth in Q2. Its gross margin stood at negative 54% compared to a positive margin of 19% in the year-ago period. It meant the company reported an operating loss of $210.5 million in Q2.

## What next for investors?

Canopy Growth's management claimed it expects revenue to accelerate in the second half of fiscal

2022. But it also cautioned investors that the pace of improvement will be lower than previously anticipated.

Canopy Growth further confirmed it will aim to stabilize market share in the recreational cannabis market in the near term. This will most likely result in gaining traction by lowering product prices, which in turn will impact profit margins negatively, given the Canadian marijuana market is an extremely crowded space right now.

Analysts tracking WEED stock expect sales to rise by just 6.3% year over year to $581 million in fiscal 2022. Top-line growth is then forecast to accelerate by 33.6% to $776.3 million in fiscal 2023.

## The verdict

Canopy Growth remains a high-risk bet given its tepid revenue growth and massive losses. In fiscal 2021 the company reported asset impairment and restructuring costs of $534 million while its sales stood at $547 million. In the first six months of 2022, these costs stood at $81 million, which resulted in negative gross margins for the company in Q3.

Canopy Growth's market cap of $7.11 billion indicates the stock is valued at a forward price to sales multiple of more than 12, which is extremely steep for a loss-making company. It ended Q3 with a cash balance of less than $2 billion and total debt of $1.65 billion.



While Canopy Growth has enough liquidity to support its cash burn rates, it is nowhere close to profitability. There are far better growth stocks trading on the **TSX** right now that have a strong balance sheet and robust profit margins.

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