Why Is Canopy Growth Stock up 8% in the Last Week?

Description

Shares of Canadian cannabis giant **Canopy Growth** (TSX:WEED)(NYSE:CGC) have gained close to 8% in the last five trading sessions. The marijuana stock gained momentum, despite an analyst downgrade, as investment bank BofA downgraded WEED to “underperform” from “neutral.”

Despite the recent uptick, Canopy Growth stock has lost almost 60% in market value year to date and is down 83% from all-time highs. Let’s see if Canopy Growth is a good contrarian buy for long-term investors at current levels.

Canopy Growth wrestling with tepid revenue growth

Similar to most other cannabis companies operating in Canada, Canopy Growth is also grappling with multiple structural issues. Investors were initially optimistic about the industry’s increasing addressable market after pot was legalized for recreational use at the federal level in Canada.

However, as marijuana is a highly regulated industry, the slow rollout of retail stores in major provinces impacted top-line growth for Canopy Growth and peers. Further, the rising number of cannabis producers as well as competition from a thriving black market resulted in a price war, which negatively impacted profit margins negatively in the last few years.

These factors resulted in rising inventory levels and million-dollar write-downs for Canopy Growth. As a result, the company has missed its EBITDA targets several times, wiping out investor confidence in the process.

In the fiscal second quarter of 2022 that ended in September, Canopy Growth’s net sales fell 3% year over year to $131 million. Canopy’s management claimed that recreational sales were down 4% year over year at $58 million in Q2 due to supply chain constraints. It reported an EBITDA loss of $163 million significantly wider than its year-ago loss of $85 million.

What’s next for WEED stock investors?

Canopy Growth is well poised to expand its presence south of the border, especially if cannabis is legalized at the federal level in the United States. In fact, Canopy Growth has agreements to acquire Colorado-based Wana Brands and hemp company **Acreage Holdings**, upon federal legalization.

Despite high cash-burn rates, Canopy Growth enjoys financial flexibility given the 38.6% stake of Constellation Brands. Canopy Growth ended Q2 with a cash balance of $2 billion, providing enough leeway to improve its profit margins. The marijuana heavyweight expects to report a positive adjusted EBITDA by end of fiscal 2022, which might be an ambitious target considering the losses reported in its most recent quarter.

Analysts tracking WEED stock expect sales in fiscal 2022 to grow by just 5.3% to $575 million. Its revenue might then rise by 30% to $750 million in fiscal 2023. Comparatively, its net losses are forecast to narrow from $4.69 per share in fiscal 2021 to $0.71 in fiscal 2023.

Canopy Growth is trading at a market cap of $4.93 billion, valuing the stock at a forward price-to-2022 sales multiple of eight times, which is steep for a company wrestling with a string of issues. Bay Street expects WEED stock to gain by over 20% in 2022. Canopy Growth is a high-risk investment in a market that is overvalued and heading for a correction.

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