If I'd Invested $100 in WEED Stock at the Start of 2022, Here's What I'd Have Now

Description

Canadian cannabis stocks have been trailing the broader markets ever since the country legalized marijuana for recreational use. Prior to legalization in October 2018, these pot stocks generated astonishing returns for investors.

For example, shares of **Canopy Growth** (TSX:WEED)(NASDAQ:CGC) gained 2,360% between October 2015 and October 2018. In the last four years, WEED has lost close to 96% in market value, and WEED stock is currently trading 70% lower in 2022.

So, if I'd invested $100 in WEED stock at the start of 2022, my investment would be worth $29.35 today. Given the significant pullback in Canopy Growth, let's see if the stock is worth buying right now.

Is Canopy Growth a good stock to buy?

Backed by **Constellation Brands**, Canopy Growth is among the largest cannabis producers in Canada. In 2018, Constellation Brands pumped in $4 billion for a 38.6% share in Canopy Growth, valuing the latter at $10.4 billion. Now, Canopy Growth is valued at a market cap of $1.6 billion and ended the June quarter with a cash balance of $1.2 billion.

Similar to its Canadian peers, Canopy Growth has burnt billions of dollars in recent years while it increased manufacturing capacity at an exponential rate and aimed to grow inorganically via acquisitions.

However, the slower-than-expected rollout of retail cannabis stores in Canada, a thriving black market, and rising competition resulted in high inventory levels and falling profit margins for most cannabis producers.

Canopy Growth continues to struggle and is wrestling to maintain its market share in a highly competitive and low-cost environment. In the June quarter, net sales fell 19% year over year to $110.1 million. In the last three years, sales have fallen by 8%, making investors nervous.

The company explained it is intentionally reducing sales of its lower-priced products to boost the bottom line and turn profitable in the near future. Analysts expect Canopy's sales to fall by 8.3% to $477.3 million in fiscal 2023 (ending in March) before rising 11.5% to $532 million in fiscal 2024. The cannabis producer reported record sales of $547 million in fiscal 2021.

What's next for WEED stock and investors?

While Canopy Growth was rapidly expanding, investors expected the company to benefit from economies of scale and turn profitable by the end of fiscal 2023. However, it is now a loss-making company struggling to grow its revenue.

In the June quarter, Canopy's net losses totaled $2.1 billion on the back of a $1.7 billion goodwill impairment charge. Additionally, gross margins are negative, and its operating loss stood at $106 million this June.

Investors are betting on the legalization of marijuana at the federal level in the U.S. to act as a key driver of growth for Canopy Growth and other Canadian licenced producers. The United States is a multi-billion-dollar cannabis market. Canopy has a pending deal with **Acreage Holdings** (a U.S.-based multi-state marijuana producer). Canopy is all set to start distributing its products once pot is legalized south of the border.

Nonetheless, several other cannabis producers in the U.S. already have a huge presence in states where cannabis is legal, suggesting it will be difficult for Canopy to gain traction here.

Investing in WEED stock remains a high-risk proposition due to its weak balance sheet and a challenging macro environment, despite trading at a depressed multiple in 2022.

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