Why Canopy Growth (TSX:WEED) Stock Fell 12% This Week

Description

The last week has not been good for cannabis investors. Leading cannabis stocks such as **Canopy Growth** (TSX:WEED)(NYSE:CGC) and **Aurora Cannabis** lost significant market value last week.

While Canopy Growth was down 12%, Aurora Cannabis fell close to 6% in the week ended August 16.

Canopy Growth announced its fiscal first quarter of 2020 (ended in June) results after market close on Wednesday. The company reported sales of $90.5 million in the first quarter, a fall of 4% sequentially.

reported earnings of -$0.30 per share. Analysts estimated sales of $86 million and earnings of -$0.37. So, why did Canopy shares fall despite beating earnings and sales estimates?

Investors were spooked with Canopy's unadjusted net loss of $1.28 billion. These losses were attributed to Canopy's expansion efforts and its recent acquisition deal with Acreage Holdings.

Canopy's tepid sales in its cannabis oils and gels segment also left investors unimpressed, driving the stock lower by 14.5% on Thursday.

Canopy results impacted peer companies as well. **Tilray** fell 10% on Thursday, while Aurora Cannabis, **CannTrust,** and **HEXO** fell 6.9%, 6.6%, and 6.8% respectively on August 15.

What next for Canopy Growth?

Canopy Growth is focusing on leveraging its expertise to gain traction in an expanding global cannabis market. It will look to develop intellectual property, brand value, and a robust supply chain as it targets new markets.

In the first quarter, Canopy filed 56 patent applications across various products. It has 100 patents and 270 patent applications.

The company is also looking to transition from a builder to an operator. This essentially means that

Canopy Growth will look to scale efficiently as its domestic market expansion program comes to an end. It would now want to develop a sustainable and profitable business in domestic markets.

Canopy Growth is likely to benefit as it becomes easier to get retail store licenses going forward. This will help the company open several Cannabis stores across the country.

Currently, Ontario and Quebec provinces have one store for every 595,00 and 495,000 people respectively. Comparatively, California has one store for 10,000 people.

Why improving bottom line will excite investors?

Canopy Growth expects to achieve an annual revenue run rate of $1 billion by the end of 2020. Analysts expect sales to rise by 200.6% to $680.47 million in 2020 and by 87.3% to $1.27 billion in 2021.

Canopy's earnings growth is too estimated to be robust. Analysts expect bottom-line to increase by 58% to -$1.08 in 2020 and by 67.6% to -$0.35 in 2021.

There will be a massive boost to Canopy's profit margins. The company should be profitable in the next three to five years. Canopy has had to raise capital to support its rapid growth. It raised $256 million in a stock issue two years back.

In the last fiscal, Constellation Brands invested $5 million for a 38% stake in Canopy. Further, Canopy raised debt of $600 million in fiscal 2019.

Canopy has a cash balance of $3.14 billion and debt of $805.8 million. It has enough reserves to pay back debt, invest in capital expenditure and grow inorganically via partnerships and acquisitions.

Now, if Canopy can just focus on improving bottom-line successfully, the stock will rise at an exponential rate.

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