



Canopy Growth Corp.: How High Can This Marijuana Stock Go?

Description

It's been good to be a **Canopy Growth Corp.** (TSX:CGC) shareholder, especially during the last year.

Shares of Canada's leading marijuana stock were languishing back in October 2015—stuck in a tight trading range for months and never really rising much above or below \$2. Canada was in the midst of its most competitive federal election in years—a race that had huge consequence for the company.

As the Liberals prevailed, the market reacted strongly. Legalizing marijuana for recreational use was a key part of the election platform. It would only be a matter of time until pot became legal. Shares quickly moved from below \$2 to \$3 each in just a couple of months.

Canopy got more good news earlier this year. Thanks to its growth and the strong demand from investors, it graduated from the TSX Venture Exchange to the big board. That precipitated another huge move upwards; the stock is up more than 73% since July 29, its first day of trading on the Toronto Stock Exchange.

And finally, the company is finally ready to roll out what could be a killer partnership. Rapper Snoop Dogg—who is an icon in the marijuana community—will lend his name to three different strains of Canopy's Cannabis. Customers can get their hands on Snoop Dogg's special blends by the end of the month as first reported by my fellow Fool writer [Will Ashworth](#).

There's a lot of good news surrounding Canopy. But, at the same time, investors must be careful to not fall for all the hype.

Be wary

There's one big problem with Canopy—the same problem that plagues a lot of start-up companies in new industries.

It doesn't make any money.

Over the last 12 months, Canopy has lost \$0.08 per share, or about \$8.5 million. That compares to the

company's fiscal 2016—which ended in March—when it posted an annual loss of \$0.05 per share with revenue growth from \$2.4 million to \$12.7 million.

With growth like that, many investors think profitability is around the corner. The only major analyst covering the company is a little more skeptical. This analyst thinks the company will continue to lose money in fiscal 2017 with a loss of \$0.07 per share. Fiscal 2018 could be better with the bottom line to finally turn positive—albeit barely—with a \$0.02-per-share profit.

That puts shares at a whopping forward earnings multiple of 277 times. Yikes.

Sell the rumour, buy the news

Some investors point to the Snoop Dogg deal as evidence the market is starting to wake up to Canopy's potential. While I think there's certainly reason to be positive about the partnership, there's a much simpler reason why shares have done so well lately.

Investors are speculating that the legalization of marijuana is just around the corner.

There's ample evidence of this. Senior officials in Justin Trudeau's government have been speaking about the issues for months now, both on and off the record, pointing out the challenges facing the administration as it tries to legalize the drug. The overall message is the same, however: this will get done. It just might take a little time.

There's an investing adage that's almost as old as the market itself, which tells investors to buy the rumour and sell the news. Shares are rising on speculation that pot will soon become legal. Once it does, traders will rush in to take their profits, sending shares reeling.

The bottom line

Canopy Growth is on the cusp of a huge potential market. That much is obvious. The company estimates a legal recreational marijuana market in Canada could be worth between \$7 billion and \$10 billion annually.

But at the same time, Canopy is hardly a blue-chip stock. It doesn't make money and is heavily influenced by traders. More than 1% of shares outstanding trade hands every day.

It has great potential. It also has great risk. Investors focused solely on that potential should keep that in mind. There's nothing wrong with taking a small speculative position in a company like Canopy. Making it a large percentage of your portfolio probably isn't wise.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:WEED (Canopy Growth)

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