



Why the U.S. Election Could Be Very Big News for Canopy Growth Corp.

Description

On Tuesday, November 8, after what feels like several decades of primaries, scandals, and news coverage, the United States will elect either Hillary Clinton or Donald Trump.

I suspect most Canadians have a similar stance on the U.S. elections as I do. I'm somewhat interested and will watch the results come in on Tuesday night. But I don't really anticipate either candidate's victory to have a meaningful impact on my life.

If Trump wins and the stock market sells off and the U.S. dollar struggles, I'll be a little more interested in buying suddenly cheap U.S. stocks. I might even plan a winter holiday somewhere warm. And if Hillary wins and sectors like big pharma continue to sell off, I might go looking for bargains. Other than that, I don't plan on doing much of anything.

The impact on most Canadian companies will likely be pretty similar. Even if Donald Trump wins, many pundits think it's unlikely to have a major effect on Canada. Trump's big problem with NAFTA is from Mexico, not Canada.

There is a Canadian company that could head higher on election day no matter who wins. Here's why **Canopy Growth Corp.** (TSX:CGC) is a stock you should watch.

A referendum on marijuana

Voters in nine U.S. states will have cannabis-related questions on their ballots. Five states—California, Maine, Nevada, Arizona, and Massachusetts—will be voting on making recreational marijuana legal in some capacity. Four states—Arkansas, Montana, Florida, and North Dakota—will be voting whether or not to make medical marijuana legal.

Remember, there are already four states that have fully legalized marijuana for personal use, including Colorado, Washington, Alaska, Oregon, and Washington D.C. An additional 23 states have passed laws allowing for medical use of cannabis.

Both presidential candidates seem open to legalizing marijuana federally as well. Both Trump and

Clinton have indicated they're in favour of legalizing medical marijuana. And, as we've seen in the states that have embraced it, legalizing medical cannabis tends to lead to legalizing it for recreational use.

The direction we're heading in is obvious. Marijuana is becoming more and more accepted. If voters in those states vote to make pot laws more liberal, it'll give more encouragement to Canada's federal government to make marijuana fully legal here in Canada.

How Canopy will react

Anything bullish for marijuana is bullish for Canopy Growth Corp. It's pretty simple.

As [I outlined last week](#), Canopy isn't really an investment, at least in the traditional definition of the term. It doesn't make any money and likely won't until 2018 at the earliest. It trades at 35 times sales. And it has a market cap of \$806 million despite having a book value of \$132 million.

Current shareholders are also at risk of being diluted. If I were Canopy's management, I'd take advantage of investor interest and raise a bunch of money by selling more shares. Since shares don't pay a dividend, a share offering is essentially interest-free money.

All of this sounds bearish for long-term shareholders, but it doesn't matter in the slightest in the short term. Canopy shares could easily spike on any news that's bullish for marijuana in general. If pot is eventually legal in both Canada and the United States, it's very good news for a producer that would now have the ability to export.

The bottom line

Any result on Tuesday that's bullish for the overall marijuana industry could very well move Canopy Growth shares much higher. But ultimately, the stock doesn't have solid fundamentals, and trading will continue to be volatile. Investors looking to play the stock should keep this unpredictability in mind.

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