Canopy Growth Corp.: Ignore the Noise and Enjoy the Snowball

Description

In the past month, shares of **Canopy Growth Corp.** (TSX:CGC) have been on a tear, more than doubling in value at one point in time. Without a doubt, there was a lot of excitement for investors who witnessed their stock pick increase in value in a significant way in only a matter of days.

Trading at a price close to $10.00 per share prior to earnings, which were released on November 14, shares hit a high of $17.86 on November 16. Currently trading at a price around $9.50, it would seem the net effect of earnings was a decline in the share price. Looking back to the first of the month, shares traded slightly under $7.00.

Investors looking for something long term may consider the current price an excellent entry point. The company is currently building its inventory to be able to meet future demand. Although a quarterly profit of $0.05 per share was reported for the most recent quarter, the reality is, CFO (cash flow from operations) was, in fact, negative.

Compared to a quarterly profit of $0.05 per share, CFO was negative $0.078 per share–a clear sign of a growing company still trying to find its market. In reality, the company has to “scale up” to reach a production capacity which will be viable for medical marijuana or potentially the everyday use of the product–pending government approval.

As an investor, it is important to understand what you are giving versus what you are getting. In the case of Canopy Growth Corp., a new investor is giving up approximately $9.50 per share for a company which is not only not making a profit from its daily operations, but is also operating on a negative cash flow basis.

Looking at the YTD (year to date) amounts, the net profit is $0.01 per share with CFO of negative $0.064 per share. Investors are paying for the potential for profits down the road.

At a price in excess of $15.00 per share, it is understandable to see short sellers enter the market and “short” the stock. In fact, had they not entered the market, the share price could have potentially gone beyond $20.00. The short sellers potentially saved the new buyers some money by creating supply on the market when there was an exuberant demand from the buyers. Over time, the supply and demand will find a happy medium. The main problem already behind us is the buyer who bought at too high a price and the seller who sold at too low a price.

The discouragement many buyers and sellers face is not that they failed to make money, but they feel they've left money on the table. They could have done even better.

To the investors who made money: be happy. To the investors who did not: it's a long-term game. In an emerging industry, the opportunities are plentiful and the rewards will come in time. As always, we have to ignore the short-term noise and be ready to invest for the long term, keeping a close eye on this market leader.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:WEED (Canopy Growth)

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