Is the Hype Around Canopy Growth Corp. Warranted?

Description

Over the past month, one of the most talked about stocks on the market is **Canopy Growth Corp.** (TSX:CGC). The emergence and sudden rise of the stock followed by an equally steep (and painful) drop shortly thereafter bear resemblance to a certain pharmaceutical company that also had a darling-like status before plummeting by over 90%.

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While Canopy is in no way like that other company, the parallels have some investors on the fence questioning what's next for the stock and, more importantly, if Canopy is a good investment.

To answer these questions, let's take a look at the case for and against investing in Canopy.

A case for investing (now) in Canopy

First and foremost, Canopy is a market leader in what should become, barring a major shift in policy, a major new segment of the economy that is both highly regulated and that has very little, if any, competition in many markets. This alone makes the company a lucrative investment option for those seeking long-term growth, provided those investors can whether the short-term roller-coaster ride the stock is taking now.

A second point worth considering is Canopy's announcement earlier this week to purchase pharmaceutical distributor MedCann GmbH Pharma and Nutraceuticals in a deal reportedly worth over $7 million.

MedCann is a successful importer of cannabis into Germany, which should ultimately lead to Canopy products on the shelves in German pharmacies. Germany recently embarked in the process of enabling medical access to cannabis and, as such, currently relies entirely on imports.

Canopy already has products that meet the strict regulations set forth by Germany, so this deal should further enhance Canopy's position in that market, opening significant opportunities. Remember the limited market with no competition I mentioned earlier? This deal effectively builds a moat around the German market before it really takes off to the benefit of Canopy.

A final reason to consider Canopy is the financials of the company itself. In the most recent quarterly update from Canopy, the company reported revenues that were 22% higher than the previous quarter and 245% over the same quarter last year. While the actual numbers associated to these increases are small, keep in mind this is a new market that only went public this past summer.

A case for not investing (yet) in Canopy

Looking at Canopy with a cooler head, there are a lot of unknowns with the company that could potentially weigh down the stock, especially over the short term.

First, speculation is running high with the stock. Because the stock is in a new industry, and because it is a recent IPO, there is a fever around Canopy that hasn't been seen since the last big-ticket IPO, which brings me to the second point.

The market loves a popular IPO. Just ask anyone who watched the **Aritzia Inc**. IPO unfold recently. The added benefit of Canopy being a cannabis company has made the stock that much more volatile. And while several states in the recent U.S. election voted to allow medicinal cannabis, the jury is still out on how president-elect Trump will take to the emerging industry and what impact it will have on Canopy.

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The meteoric rise of Canopy past the billion-dollar market cap seems a little too soon, especially considering that the company's cash and cash equivalents on hand was below $50,000 in the most recent quarter, and revenues are still shy of eclipsing what the market cap would typically warrant.

Is there potential in Canopy? Yes, without a doubt; the company could emerge as one of the brightest performers in the market in years to come. But at the moment, the best thing could be to sit by and wait for the stock to settle and then buy.

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