Why You Should Avoid Canopy Growth Corp.

Description

There's no question that **Canopy Growth Corp.** (TSX:CGC) is creating value by growing and distributing marijuana products to patients across Canada and most recently to Germany.

However, investors should avoid the stock. Here's why.

Sales growth

There's no doubt that Canopy Growth has been growing at a tremendous rate. Quarter after quarter, it is generating more sales.

In the second quarter of fiscal 2017, it earned revenues of nearly $8.5 million, which was 3.4 times higher than the same quarter a year ago. In the same period, its number of registered patients snowballed from about 6,200 to roughly 24,400–an increase of 3.9 times.

And how has that affected its shares?

Share performance

Despite the recent pullback, the shares have actually appreciated more than 200% in the last three months. Now you see why so many people flock to the stock in the hopes of it heading even higher.

The folks who bought the stock *before* it got listed on the Toronto Stock Exchange would have seen even greater gains–more than 300% in a year and more than 1,600% in five years.

In other words, early investors have already made lots of money from the stock. They also took the least risk investing when they did. At the current valuation, it's much riskier to invest in the stock.

Photo: Plantlady223. Licence: https://creativecommons.org/licenses/by-sa/4.0/ Source: https://comm

Image not found or type unknown

Photo: Plantlady223. Licence: https://creativecommons.org/licenses/by-sa/4.0/ Source: https://commons.wikimedia.org/wiki/File:Young_cannabis_plant_in_the_vegetative_stage_01.jpg

How profitable is the company?

It’s great to have growing revenues, but it doesn’t help if the company is not making money.

On an initial look, it seems the company is becoming more profitable. In the most recent quarter, Canopy Growth’s net income after taxes was $5.4 million, which was 38% higher than the same quarter in the previous year.

However, on a per-diluted-share basis, the earnings were the same at $0.05–no thanks to the 1.5 times increase in the number of its outstanding diluted common shares.

So, essentially, the company’s profitability for this year’s Q2 was the same as it was last year. Yet, the shares are much higher.

Conclusion

Right now, Canopy Growth has high net margins of over 60%. However, more competitors will enter the space, and it will likely lead to margin compression.

Moreover, although its revenues and net income are growing, it hasn’t shown evidence of per-share profitability growth yet. Assuming we quadruple its Q2 earnings per share to guesstimate its earnings for the next year, it’s still trading at a multiple of 59 based on a price of $11.80 per share.

That’s an expensive multiple to pay. If investors are buying the stock today, they really need to keep their fingers crossed and hope for the best.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

1. Msn
2. Yahoo CA

Category

1. Investing

Date
2025/08/16
Date Created
2016/12/01
Author
kayng