What Another Acquisition by Canopy Growth Corp. Means

Description

The whirlwind surrounding **Canopy Growth Corp.** (TSX:CGC) is set to continue, at least for the time being.

Canopy's roller-coaster month has seen the small Smith Falls, Ontario, company propel its market cap to over $2 billion in a little over a month. Favourable outcomes to legalize marijuana in several U.S states in last month's U.S. presidential election also helped push the stock further up, signifying a growing market and huge demand.

There was also Canopy's purchase of German distributor Medcann earlier this month, which essentially opened the German market to Canopy products well ahead of the competition.

And then finally, earlier this month, Canopy announced the acquisition of Toronto-based Mettrum Health Corp. in a deal reportedly worth $430 million.

Under the terms of the deal, Mettrum shareholders will receive 0.7132 shares of Canopy for each of their existing Mettrum shares. While the deal is still subject to shareholder approval at a meeting to be held early next year, the ramifications of the deal could be huge for Canopy as well as the market.

What does this latest deal mean for Canopy?

Canopy noted that the acquisition will reduce costs, add additional growing area, and add Mettrum's line of products into Canopy's existing mix.

In terms of additional growing space, Mettrum has approximately 80,000 square feet currently, which will bring the total to an impressive 655,000 square feet once added to Canopy's existing growing space.

Canopy is already the most well-known and largest marijuana stock on the market. The company's immense growth in market cap over the past month has attracted a lot of attention, but it has also served as fuel for Canopy to go on the offensive.

Some industry experts argue that the acquisition may have more to do with eliminating the competition rather than growth.

Health Canada has only issued 36 licenses to grow marijuana, and now Canopy owns two of those licenses. As the nation moves toward legalizing marijuana for recreational use in 2017, the value of those licenses is set to soar.

Furthermore, that impending timeline for legalization may act as a catalyst for the other licensees to merge or do an acquisition of their own. Canopy just fired the preemptive salvo in what will likely become the first of several mergers and acquisitions in this growing industry.

Is Canopy a good investment?

Canopy is emerging at the forefront of a new industry that has potentially billions in revenue. By some accounts, that revenue could be as high as $6 billion within the next few years. Canada is also the first of the G7 countries to make a move towards legalization, which could spur even more potential over the long term.

That's the glass-half-full take on Canopy.

Year-to-date, Canopy is up over 200% and now has a market cap of over $1.2 billion, while, in the most recent quarter, Canopy reported revenue of $8.5 million.

While there is no doubt that Canopy could be a great long-term performer with lots of potential, the truth of the matter is that, at this point, the stock is far too volatile for most investors, and the results don't match up with the inflated market value.

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dafxentiou