



Should Investors Consider Canopy Growth Corp.?

Description

Investors are incredibly excited about **Canopy Growth Corp.** ([TSX:WEED](#)) and for good reason. A year ago, the stock was trading under \$3 a share. It's now trading at close to \$12, returning four times more in 365 days. So, for those who'd bought in early on, the returns are quite impressive.

But we're now looking at a situation where the stock has increased quite aggressively thanks mostly to the belief that the future is bright. And there are still many investors sitting on the sidelines wondering if they should consider this company.

I'm not so sure...

Buying Canopy is all about buying the belief that the government of Canada (and the world) will start passing laws that make marijuana legal. While the focus is currently on medical marijuana, the long-term hope is that recreational marijuana usage will also be approved. And that makes sense because an analysis by Cowen & Co, an alternative investment management firm, found that legal marijuana could be a US\$50-billion-a-year business by 2026 in the United States alone.

But even if we take a step back and look just at Canada, the government is saying all the right things. Prime Minister Justin Trudeau and the Liberals are looking to push legislation through with the expectation that it'll go live this year.

But if we look at California, which has already legalized marijuana, it's clear that it's going to take a lot longer to get regulation through to manage marijuana. There are still a lot of questions to answer; for example, how is it taxed? How will that money be raised? What's the legal smoking age? Who can sell it? Who can produce it?

Should anything bad happen, either with the government stepping on the brakes regarding legalization, or if it just takes a lot longer for the industry to get going, that could have a seriously negative impact on the stock price. And with Canopy having less than \$10 million in quarterly sales and no profits, being worth \$1.8 billion is a very dangerous place to be.

Nevertheless, Canopy is in a strong position to shine when legalization actually takes place.

First, Canopy is finalizing the acquisition of **Mettrum Health Corp.**, which gives the company about half of the Canadian medical marijuana market. This will help the company increase its sales. Further, the acquisition will expand Canopy's production facilities and add new brands. As we see with major tobacco companies, multiple brands all lead to one bank account.

Second, Canopy has signed a deal with Goldman Group, a real estate developer, to set up new production facilities for Canopy. In return, Canopy will lease these facilities from Goldman. This reduces costs for Canopy while also allowing it to scale aggressively should the government prove me wrong and legalization goes down without a problem.

For those who have been owners during this incredible run-up, you may want to take some profits off the table because I believe that this will dip back down if there are any hiccups in legislation. As for those who want to buy, I remain unconvinced that this is the right price. I believe the world is moving toward complete legalization. And when that happens, a \$1.8 billion market cap is not what Canopy will have. So, it's all about your time perspective.

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