Is Canopy Growth Corp. a Good Investment?

Description

Canopy Growth Corp. (TSX:WEED) is an interesting company full of potential for patient investors. The company captured the imagination of investors last year as the market cap and stock price propelled past the $2 billion mark in short order.

Canopy then followed up with several smart acquisitions that expanded the market reach and eliminated a key competitor.

The stock has been on a roller coaster since then; analysts have mixed feelings about the long-term prospects of the company.

Here's a look at Canopy and why it may appeal to some investors.

Canopy is a new type of business

For those unfamiliar with Canopy, the company grows and distributes medical marijuana. The medical marijuana business is still in its infancy with only a few jurisdictions around the world permitting access to it for medical purposes.

While marijuana for medical purposes is legal in Canada and across 28 states in the U.S., overlapping state and federal laws in the U.S. make access to marijuana a complicated and confusing matter. Even worse, despite being illegal at the federal level, eight states voted this past November to legalize marijuana for recreational purposes.

All of this adds to the uncertainty and volatility of the stock now, but experts agree that prospects over the long term for the company and the emerging marijuana industry are huge.

To put just how huge that opportunity is into perspective, the recreational marijuana market has been compared to by some as what an investment in liquor companies would have been like at the end of prohibition a century ago.

Canopy is built for (and has an eye on) growth

Canopy entered the market at the right time and has capitalized on improving its position in the marketplace. Last year, Canopy acquired German distributor Medcann in a strategic move that opened the German market to Canopy.

Germany does not currently permit cultivation of cannabis locally, so any medicinal marijuana needs to be imported to the German market, but Germany is in the process of enabling access to medical marijuana through qualified suppliers, and Canopy is recognized as the premier legal supply of cannabis in North America.

Canopy then moved to acquire Mettrum Health Corp., to expand its reach and potential, eliminating what was a large competitor, and increasing its production capacity in one action. Once integrated, Canopy will control nearly half of the marijuana market in Canada and benefit from reduced costs, a larger product line, and an expanded growing area.

Pricing concerns

The rapid growth of Canopy over the past few months has attracted a fair number of critics.

While there's no debate over the long-term potential of the emerging industry, there is debate as to how much of that potential is already priced in to the current stock price.

That point is hard to argue, particularly considering that Canopy, with a market cap of over $1 billion, posted just $8.5 million in revenue in the quarter that ended in September 2016.

Worse still, that potential is largely contingent on legislation being tabled for legalizing marijuana over the next few months. Issues of taxation, regulation, and pressure from a new conservative administration in the U.S. could all hinder legalization, which could bring the stock back down.

In my opinion, Canopy remains a very volatile investment for most, particularly over the short term. Investors with an appetite for risk may see the possibility for gains over a long term.

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