



Canopy Growth Corp.: Not a Buy on Legalization News

Description

Investors are clamouring for legalized marijuana because they recognize it is a \$5-billion-a-year business in Canada alone with the United States accounting for a significantly larger pot. Investors are so hungry that a recent ETF, **Horizons Marijuana Life Sciences ETF** ([TSX:HMMJ](#)), just launched, carrying a basket of 14 different stocks. But my focus is on one specific stock within that ETF: **Canopy Growth Corp.** ([TSX:WEED](#)).

Canopy is one of the most aggressive in the market today, taking advantage of smaller competitors by simply gobbling them up. And over the past three months, the stock has been rising and falling under \$10 and over \$13 a share. The company received fantastic news, indirectly, at the end of March.

According to the CBC, new marijuana legislation is going to be introduced by the Liberal government sometime later this week. Legislation includes Canadians being able to carry up to 30 grams of marijuana without fear of legal reprisal, mandating a minimum age, allowing households to grow their own marijuana, and other regulations.

What excited investors even more was the date; Trudeau's government wants to have legalization of marijuana by Canada Day in 2018.

There's only one problem. According to reports, while the Federal Government will license producers (such as Canopy), the individual provinces and territories will set the price of marijuana and determine how it is sold. This is an important detail because each province doesn't have to have its own policies in place by Canada Day; that's just the Federal Government.

Therefore, while this is a big step forward, don't expect true legalization throughout the country for quite some time.

Because of that, I remain unconvinced that Canopy is a smart buy at this time. Although I believe legalization will occur, not only in Canada, but south of the border, the company is currently trading at a valuation that demands perfection. Consider that last quarter, Canopy only brought in \$9.75 million in total revenue. While this was up from \$3.48 million the year prior, the company trades at a \$1.74 billion market cap. It's going to need to sell a lot more marijuana to justify that price.

But that doesn't mean the company isn't in a solid position for the future thanks to smart moves. The first is the takeover of Mettrum Health Corp., which means that half of Canada's medical marijuana patients now buy Canopy's products. Canopy also acquired Medcann, a German distributor. In Germany, it is illegal to grow cannabis, but it's perfectly legal to import it. Therefore, Canopy can grow cannabis in Canada and then ship it to Germany.

Canopy's growing operations are only getting stronger. The company entered an agreement with Goldman Group, a real estate developer, which will buy and build facilities to Canopy's specifications and then lease them to Canopy. This will allow Canopy to expand its production, so when legalization occurs, the company can start generating greater amounts of revenue.

At some point, Canopy will be a good investment. However, with its price today, I cannot recommend investors buy it, unless you believe it will execute flawlessly. Canada Day 2018 will bring legalization, but that doesn't mean it will bring sales.

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