



## Canopy Growth Corp.: Could it Hit \$20 by Year-End?

### Description

**Canopy Growth Corp.** ([TSX:WEED](#)) is back down to \$10 per share and investors are wondering if a double might be in the cards before next year.

Let's take a look at the current situation to see if this is the right time to add the stock to your portfolio.

### Recreational market hopes

Canopy and its peers are trading at sky-high valuations based on investor expectations that Canada will open its recreational marijuana market in July 2018.

It's easy to see why the hype is holding up.

The federal government has met its targets to date, much to the surprise of many pundits. The task force submitted its report as expected at the end of November, and the Liberals introduced the first look at the legislation April 13, which was right on schedule.

Once passed, the plan will provide a legal framework for the opening of the recreational market by Canada Day next year.

### Are investors too optimistic?

The provinces and territories will be responsible for administering the programs in their own back yards. This includes setting prices and overseeing the operations of the industry.

The market appears to believe the provinces will have all their ducks lined up by next summer, but there are serious decisions that have to be made in a short period of time.

Pricing is just one component that will have to be ironed out. If marijuana is taxed too heavily, there is a risk buyers will simply turn to the black market. On the other hand, if the tax revenue is too low, cash-strapped provinces might find themselves facing a new money pit.

Deciding who gets to sell marijuana, and where, is also going to take some careful planning. Given the

potential size of the market, there is a lot of money at stake, and politicians are going to want to get it right.

As such, it wouldn't be a surprise to see the provinces drag their feet on this matter.

### **Is Canopy attractive?**

Canopy is doing all the right things at this point in the market's evolution.

The company is the dominant player in the growing medical marijuana space, with strong market share in Canada and strategic positions overseas.

Canopy's leadership was made more evident recently with the announcement that three of Canada's smaller players have signed up to supply product to Canopy's Craft Grow program on a wholesale basis.

Through the Tweed Main Street online marketplace, smaller companies and new entrants can expand their reach while avoiding the costs and risks involved in trying to set up their own sales and service platforms.

The market is still evolving, but Canopy is definitely on the right track.

### **Is 100% upside possible by 2018?**

Canopy and its peers appear to be priced for perfection, so any significant move to the upside in the coming months would likely require strong indications from the provinces that they will indeed be ready to launch next summer.

At this point, I have my doubts that will happen, so new buyers of the stock might want to be careful betting on a big gain in the near term. In fact, there is a risk things could go the other way, especially if the provinces start to kick the can down the road.

Canopy is definitely a top name in the sector, but at the current valuation, it might be a good idea to keep any position small.

### **Looking for more research?**

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**Date**

2025/08/26

**Date Created**

2017/04/25

**Author**

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