Canopy Growth Corp. Down Nearly 30%: Now What?

Description

Canopy Growth Corp. (TSX:WEED) is one of those complicated stocks. On the one hand, it's in an amazing, high-growth niche that should result in the business being much larger in the future as regulations begin to favour the company. But on the other hand, it still has a long road ahead of it, so expectations can oftentimes cloud smart investment judgement. Thus, it's not terribly surprising that Canopy has given back about 30% of its value over the past few months.

Let's take a look and see if, at its current value, investors should start picking up shares of Canopy.

By and large, Canopy is the top medical marijuana company in Canada. It serves 50,000 people, or about 50% of Canada's registered patients, and, thanks to the smart takeover of Mettrum Health, it's in a good position to grow.

Canopy has an agreement with real estate development Goldman Group, which buys and builds facilities to Canopy's specifications. In return, Canopy leases those properties from Goldman, resulting in long-term rentals for the Goldman Group. The benefit for Canopy is that it doesn't need to make massive investments in real estate and can, instead, invest elsewhere.

Then there's the CraftGrow Collection, which allows Canopy to sell small-batch cannabis from AB Laboratories Inc., JWC Ltc., and Island Garden Inc. — three licensed producers. It might seem like a bad idea to sell the competitor's product; however, I view it as a win-win. Canopy becomes the single destination for marijuana, providing a product its clients want, irrespective of the producer. Further, if Canopy finds that one of those producers is a fan favourite, it has the data to justify an acquisition. There's no better data than first-party sales information.

And then there are the multitude of partnerships and operations Canopy has around the world. In Germany, it purchased a pharmaceutical distributor. Germany has a rule where it's perfectly legal to distribute marijuana, but it's illegal to grow it; therefore, Canopy is in the perfect position. It also has a partnership with a company in Brazil to export marijuana for research purposes. And finally, there's the memorandum of understanding Canopy signed with Namaste Technologies, which sells accessories online.

That's all the positive news about Canopy. Unfortunately, the negative news is that regulation continues to move at its own pace. Although Prime Minister Trudeau did say he wants to see new marijuana legislation ready by the summer, there is the unfortunate reality that these things take time. And even if the federal government has the legislation ready, there's the problem of each province enforcing it. This will expand the time it will take for Canopy to truly be in a place to generate revenue.

And if that’s not enough, Canopy remains incredibly expensive. It brought in $9.75 million in revenue in Q3 2017. Although this is up 15% from Q2, the reality is that Canopy is valued at $1.47 billion and only had revenue of about $10 million. It is going to take time before this company truly commands a $1.47 billion market cap. Nevertheless, for investors that are bullish on marijuana legalization, Canopy is the right way to go. It’s just going to take time.

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