



## Canopy Growth Corp.: Is the Sell-Off Overdone?

### Description

**Canopy Growth Corp.** ([TSX:WEED](#)) recently dropped to levels not seen since early November last year.

Let's take a look at the current situation to see if the stock should be on your buy list right now.

### Market leader

Canopy is the market leader in Canada's growing medical marijuana sector and is positioning itself to compete in the anticipated recreational market.

Acquisitions have been a big focus in the past year, with the purchase of Mettrum Health being the most important. Mettrum brought new national brands, important production capacity, and additional clients. The merger created a dominant force in the medical marijuana space with 50,000 registered patients.

Expanding production capacity fast enough to meet growing demand is a significant challenge in this market.

Canopy recently bought the property that houses its headquarters, giving it the ability to triple current production at the site. The deal also comes with 40 acres of land.

In addition, Canopy announced an agreement in November with the Goldman Group to help scale up quickly in a cost-effective manner.

Goldman will buy or build new facilities and outfit them to meet Canopy's production requirements. Canopy will then lease the locations from Goldman.

Goldman is already the landlord for Canopy's Bedrocan Canada operations.

### International opportunities

Canada is the main focus at the moment, but Canopy also has its eyes on international growth.

The company purchased a pharmaceutical distributor in Germany and has a partnership established in Brazil. Canopy also signed a memorandum of understanding with Namaste Technologies in February. Namaste provides vaporizing technology through more than 25 e-commerce stores in 20 countries.

### **Sales outlets**

Canopy currently sells product through its online Tweed Main Street marketplace.

In an interesting move, the company has set up a CraftGrow program where smaller producers can sell their products through Canopy's online platform. It's a win for all parties, as Canopy picks up additional revenue and smaller suppliers avoid the cost of building their own sales platforms.

### **Recreational market**

The Canadian government is targeting July 1, 2018, as the opening date for a legal recreational market, but the realization of that target relies on the ability of the provinces to get their rules sorted out.

The provinces have control over pricing and where the products can be sold. Getting these details ironed out is not an easy task, and it will be interesting to see if they can get all their ducks lined up in the next year.

### **Should you buy Canopy?**

At the time of writing, the stock trades for \$7.60 per share, giving the company a market capitalization of more than \$1.2 billion.

That's still expensive based on the current revenue stream, so investors have to decide if they think the provinces can meet the target date to roll out the recreational market next year.

If you believe the timeline is reasonable, Canopy might be worth a shot on further weakness, as the company is positioned well to capitalize on the expected surge in demand.

However, if you suspect the provinces are going to need two to three years to sort things out, it might be best to stay on the sidelines.

### **CATEGORY**

1. Investing

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1. TSX:WEED (Canopy Growth)

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1. Investing

**Date**

2025/08/24

**Date Created**

2017/05/26

**Author**

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