



Canopy Growth Corp.: Why the “Snowball” Has Melted

Description

As independent investors, it is important to make informed, educated decisions on individual stocks and sometimes entire industries. These decisions can often take significant amounts of time and due diligence; varying amounts of conflicting information can make the job much more difficult.

While going against the grain of what most other analysts suggest may open one up to be ridiculed or attacked, having an independent mind is, in my opinion, the greatest asset any investor has.

On [November 17](#) I published my first article on **Canopy Growth Corp.** ([TSX:WEED](#)), urging investors to stay away from it for three reasons which still hold water today:

1. It has tremendous, fast growth in customers and revenue, but long-term growth may be constrained;
2. The political environment remains very uncertain, domestically and globally; and
3. Canopy's stock price factors in a market much bigger than what currently exists.

At the time, the vast majority of commentary on Canopy was outright bullish, and nearly every article I read supported the increased valuations of marijuana companies with few exceptions.

On November 16, the “budding” marijuana company’s stock price hit an all-time high of \$17.86 per share, giving the company a market capitalization of nearly \$3 billion. Everyone and their mother wanted to own the stock, with some analysts [suggesting](#) that “shorts” stopped the price from exceeding \$20 per share, and that the long-term “snowball” effect of owning marijuana stocks would simply mean the trend would continue in perpetuity, and investors should jump in at any price and not worry about those pesky “shorts.”

Since my article on November 17, I have written no less than 20 articles on Canopy with different theses supporting an outright bearish outlook for this company’s stock price. I remain bearish on Canopy's stock price and believe significant downside remains due to increased sophistication of competition and supply/demand fundamentals that remain out of whack.

I have not owned or shorted this stock personally; however, with my own financial model, I have

calculated Canopy's intrinsic equity value to be between \$5 and \$6 per share due to the long-term effects of dilution and industry-wide supply and demand incongruences.

If and when Canopy's fundamentals begin to make sense, I will be sure to give this stock a chance and change my point of view; however, it is clear to me that Canopy has numerous challenges ahead and is no longer the only game in town, meaning the race to the top, which was once a seemingly foregone conclusion, is now a contested battle among worthy opponents who have begun to carve out niches for themselves, challenging Canopy's rein as Canada's cannabis leader.

Stay Foolish, my friends.

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TICKERS GLOBAL

1. TSX:WEED (Canopy Growth)

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Date

2025/08/03

Date Created

2017/06/05

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