Canopy Growth Corp. Continues to See Strong Revenue Increases: Is it Enough to Support the Rich Valuation?

Description

Canopy Growth Corp. (TSX:WEED) stock has declined from highs of over $12 that were reached in February of this year. It is essentially down 39% since then, which means that it is time to revisit this company and re-evaluate where we stand with regard to valuation and growth rates achieved and expected.

Earlier this year, I wrote about Canopy. My belief was that the shares did not represent a compelling risk/reward proposition, as valuations were trading at euphoric heights given the company and its fundamentals.

In February, the stock was trading at over 60 times revenue with no earnings. In June, the stock was trading at over 40 times revenue — still with no earnings. Today, the stock is trading at over 30 times revenue. As of the latest quarter, the first quarter of 2017, the company had a net loss of $0.14 per share, so there are still no earnings.

I think that the shares are getting closer to a real, fair valuation, but they are still far off from levels where I would seriously consider investing in them. I am not interested in investing in a stock where the odds are stacked against me. In my view, this frothy, bubble-like valuation represents just that.

So, while the latest quarter saw a 50% sequential increase in revenue and a 191% increase in year-over-year revenue, the market and the company is still in its infancy, and so the risks associated with it remain high.

As of the end of the first quarter of 2017, cash and cash equivalents totaled $101.8 million, as the $24 million in proceeds from the issuance of common shares contributed to an increase in the cash balance versus the prior period.

The company used $15.7 million in its operating activities in the quarter, which makes it a situation where we need to be concerned with cash burn. This puts the stock into the speculative category.

I am in total agreement with the excitement surrounding the medical marijuana industry. I am just not a fan of buying into hype, and right now, that is what this stock feels like. As investors, I think it is a good idea to take a longer-term view of things and, when we see these situations, to be confidant enough to wait it out and see how it goes.

Either the stock price will continue to decline to make valuations more reasonable, or the company will show revenue and earnings increases that prove the assumptions that are baked in to the stock. Let's make sure we buy low and sell high, and not the opposite.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/08/24
Date Created
2017/07/08
Author
karenjennifer