Is Canopy Growth Corp. a Buy After Giving up 37%?

Description

One of my main arguments against **Canopy Growth Corp.** (TSX:WEED) is that while it gives you exposure to the marijuana business, it's immensely overpriced for the amount of revenue that it's bringing in. However, since March, it has given up 37%, making it necessary to analyze the company once more and determine if it's worth picking up shares.

To help determine that, let's look at the Q4 2017 earnings result. According to its release, its revenue was $14.7 million for the quarter, up 50% from the same quarter last year. And looking at 2017 versus 2016, revenue was $39.9 million, up 200%. So, the company is obviously experiencing growth, which should have investors happy.

Unfortunately, there are some analysts that are frustrated with the fact that it's not profitable yet, reporting a $0.14 per share loss. Personally, I don't care if Canopy Growth is profitable in the next few years because it is in market share expansion mode. Like most young companies, it reinvests any of its cash back into the business, so it can hopefully compound its returns. But naturally, when a company does that, it doesn't bring in any earnings.

The thing is, it needs this strategy. Profit on $14.7 million of revenue really isn't worth it to me. I'd prefer to see a profit on $147 million or $1.47 billion of revenue; however, to achieve that, it needs to keep growing. Currently, it has 50% of the medical marijuana market in Canada; however, as of March 31, there were 414 applications in progress from other entities looking to enter the medical marijuana market. If Canopy doesn't want to lose that market share, it needs to consistently focus on expansion so it can reach economies of scale that its competitors can't.

Then there's its expansion into Germany. Right now, laws prevent medical marijuana suppliers from actually growing marijuana in Germany. Therefore, Canopy can export its product to Germany and sell there. This comes with inherent costs, but it opens another solid market for the company, ensuring it's not entirely reliant on Canada for its revenue. And if German laws change and cultivation can occur in the country, Canopy will already be in a place to execute its plan.

But let's talk about if the company is actually worth buying at this price.

With $14.7 million revenue and a market cap of nearly $1.3 billion, you're buying a company with the understanding that growth is the only thing that matters. No earnings on $14.7 million could ever justify a $1.3 billion market cap, but if the company can continue growing, the returns could be quite significant.

It's certainly possible that shares could drop even further; however, with expectation in the market that Canada will start to see serious movement towards legalizing marijuana across the country, I think investors have aggressive expectations. And as other jurisdictions start to decriminalize and recognize the tax benefits of selling marijuana, Canopy could be in a prime position to offer supply. However, if you're expecting this company to be profitable soon, you may want to look elsewhere.

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