Canopy Growth Corp.: Is This Stock Attractive at $8 Per Share

Description

Canopy Growth Corp. (TSX:WEED) is trending higher after a four-month slide that saw the stock price slip from $13 to below $7 per share.

Let's take a look at the current situation to see if Canopy's bounce back to $8 could be the start of a new rally.

Medical market

Canopy is the industry leader in the Canadian medical marijuana market with more than 55,000 registered patients as of March 31, 2017. This compares to just 11,000 registered patients at the same time in 2016.

A series of acquisitions supported much of the growth, including the strategic purchase of Mettrum Health earlier this year.

Canopy continues to reinforce its dominant position in the market with the opening of its online store, Tweed Main Street. The site went live in April and serves as the single retail outlet for all of the company's Tweed, Bedrocan, and Mettrum registered patients.

In addition, Canopy has set up a CraftGrow line, which gives other producers an opportunity to access the Canopy Growth platform and reduce the investment required to set up their own retail operations.

To further cement its position, Canopy has set up another business, Canopy Rivers, to operate a streaming operation whereby the company would provide upfront funding to other producers in exchange for the right to acquire a portion of their cannabis production.

Recreational market

The Canadian government has laid out the framework for the legalization of a recreational cannabis market to begin as early as July 1, 2018.

As the leader in the medical market, Canopy should be in a strong position to capture a significant part of the recreational pie. Estimates vary, but Canopy sites a report that says the market could be worth more than $5 billion per year.

Should you buy Canopy?

The stock appears to have stabilized after the pullback, but the company still sports a market capitalization of $1.4 billion, which is a lot for a business that has quarterly revenue of less than $15 million and still isn't profitable. In the most recent quarterly report, Canopy lost $0.14 per share.

As a result, investors have to assume the recreational market will roll out as planned to be buyers at the current stock price.

Will the market open as expected?

Ottawa has shifted most of the burden to the provinces and territories, including responsibility for determining their own rules for sales and pricing.

Given the potential size of the market, the regional governments will likely want to take their time and make sure they get things right. I'm not convinced they will have all their ducks lined up in the next 12 months, so there could be some downside risk for the sector if the provinces start announcing delays.

At the very least, investors should probably expect a staggered opening on the recreational market across the country.

The long-term potential is certainly attractive, but I would keep any speculative position small at this point in the game.

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