Does Canopy Growth Corp. Have Long-Term Potential?

Description

Late last year, as talk of legalizing marijuana for recreational use began to gain traction, stocks such as **Canopy Growth Corp.** (TSX:WEED) began to take off. At that time, Canopy surged to new highs and was lifted further through a series of acquisitions that were announced shortly thereafter, first for a distributor in Germany and then for another competitor in Canada.

Since then, the stock has stopped its meteoric rise, which was arguably inflated. The stock is still up an incredible 160% over the past 12-month period, despite being down nearly 9% year to date. This has some investors questioning if the bubble (if there was one) around Canopy has finally popped and if Canopy is a great investment.

A great market opportunity exists

As per Health Canada, nearly 130,000 Canadians are eligible to purchase marijuana for medicinal purposes, and that number is set to grow by leaps and bounds over the next few years from both domestic and foreign pressures.

While Canada aims to have legislation in place to legalize recreational use marijuana by next summer, the early draft submitted this past spring left many gaps to be filled before the bill becomes law, and the provinces still have to weigh in with their own legislation.

On the international stage, some countries are beginning to open to both medicinal and recreational use, but the process is slow. That's not to say that companies aren't already capitalizing on the opportunity that is unfolding, which is huge.

By way of example, Canopy acquired the Germany-based distributor MedCann late last year. Growing and harvesting cannabis in Germany is still illegal, meaning medicinal products need to be imported. Canopy is already recognized as the leading supply source that is legally available from North America, which MedCann can now distribute to customers in that market.

Additionally, an increasing amount of research is now looking at the use of cannabis for treatments in a variety of conditions, ranging from chronic pains to cancer treatments. With results looking promising, demand for cannabis is only set to grow over the next few years.

Should you invest in cannabis stocks?

Investors that have made the jump and purchased marijuana stock have likened the opportunity that is unfolding to investing in liquor companies towards the end of prohibition. While there are some parallels to this analogy, and there is a significant upside to be made over the long term, that long-term time frame could be some time out.

There's also the question of profitability, which skeptics will point to when looking at companies like Canopy. Canopy's $0.14-per-share loss would be enough to have investors running if it were any other established industry, but this is where those skeptics are not looking at the position that Canopy and, by extension, the whole market is in.

In terms of full results, Canopy brought in $14.7 million in revenue for the quarter, which was a 50% increase over the same quarter last year, so that loss is not as dire as it would seem. If anything, Canopy is pursuing aggressive growth, which is exactly what the company should be doing.

The cannabis market is still very much in its infancy, and for any company to excel at this point, the focus should be on expansion. Canopy has cornered 50% of the market in Canada and is working on expanding both in Canada and abroad. As economies of scale start to set in, and the market expands, the profitability that skeptics are concerned about will come in time.

Until then, Canopy remains an intriguing opportunity for investors looking at long-term growth that have a higher tolerance for risk.

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