Is Canopy Growth Corp. a Good Investment?

Description

Last fall, investors scrambled to buy into **Canopy Growth Corp.** (TSX:WEED), citing that the impending legalization of marijuana for recreational and medicinal uses would bring forth a myriad of opportunities for Canopy to grow further.

In a little over a month, the stock propelled to a market cap of over $2 billion, while revenue and sales remained far below. Canopy completed a number of intriguing acquisitions, first in establishing an international presence and distribution hub to expand into Europe, and then by eliminating a major competitor in the Canadian market.

While the stock has settled since the roller-coaster ride of last fall, it has appreciated over 125% in the past 12-month period, leading many to question whether the opportunity has passed or is still to come.

Let’s try to answer that, starting with a look at the market as well as Canopy’s quarterly update.

Is the market ready?

The Liberal election victory and subsequent move to pass legislation on legalization have been a boon to the entire industry. Industry experts have often noted that the investment opportunity presented currently to cannabis companies is not unlike an investment in liquor companies at the end of prohibition.

In other words, the opportunity is there, it’s huge, and it isn’t going away.

Even the U.S. market, which has been notoriously against legalization in the past, is beginning to open to the concept. In last year’s election, eight states asked voters to consider legalization for medicinal uses.

Canada is just one of many nations that is gradually passing legislation relating to marijuana, either for recreational or medicinal use. This only furthers Canopy’s competitive advantage, as it is a globally recognized company that can provide a product that is in line with regulations and laws.

This is one of the primary drivers behind Canopy's acquisition of Germany-based distributor MedCann. Canopy is a licensed supplier in Germany, which does not yet allow companies to grow product locally.

In short, Canopy is sitting on a massive amount of market potential that is only poised to grow over time.

Quarterly results: a promise of more, or a work in progress?

Early this summer, Canopy released results for the fourth quarter of 2017 which showed significant growth potential.

Revenue in the quarter topped $14.7 million, representing a 50% increase over the previous quarter and a 191% increase over the same quarter in the previous year. In terms of pricing, Canopy realized an average price of $8.03 per gram in the quarter compared to $7.16 in the same quarter last year.

In terms of sales volume, Canopy reported sales of 1,740 kg in the quarter, coming in 40% higher than the previous quarter and an impressive 149% increase over the same period a year earlier.

Adjusted EBITDA came in at a loss of $5.3 million for the quarter compared with a loss of $4.4 million noted in the same quarter last year. At the close of the fiscal year, Canopy reported $101.8 million in cash and cash equivalents.

Is Canopy a good investment?

Canopy has the potential to continue growing for years. The company has a commanding lead in the domestic market in Canada and has the requisite steps in play to become a major exporter through the MedCann acquisition.

At the moment, Canopy continues to see double-digit growth with each passing quarter. While this may slow in the future, the fact remains that Canopy is a leader in an emerging sector of the economy that holds plenty of potential, and that alone makes the stock worthy of an investment.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

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

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/07/03
Date Created
2017/08/17
Author
dafxentiou