



## Why Canopy Growth Corp. Will Become Great Again in the Eyes of Investors

### Description

**Canopy Growth Corp.** ([TSX:WEED](#)) was the first cannabis stock to the market and quickly captured the attention of traders and risk-taking growth investors alike. As a result, shares of Canopy skyrocketed 300% in a span of just a few months last year. The stock bubbled up, and eventually shares nosedived, and investors who'd jumped in too late suffered losses as large as 40% from peak to trough. A lot has happened since the quick rise and fall of Canopy, including a scandal over tainted cannabis and multiple industry-wide concerns that replaced greed with fear in a hurry.

### There's worry in the eyes of many cannabis investors

As we head towards the latter part of 2017, there are many things to worry about if you're a marijuana investor. Legalization may be pushed back to 2019; political roadblocks could stand in the way; taxation issues and the emergence of a black market could arise; there could be increasing competition as the government grants more production licences; there are many more issues that could come up in the months leading up to legalization (whenever that ends up being).

### Canopy fell out of favour

That's quite a lot to worry about! Those are major reasons why the hype over marijuana stocks has faded this year.

Canopy isn't looking like Canada's favourite pot stock anymore, as **Aurora Cannabis Inc.** ([TSX:ACB](#)) and **Aphria Inc.** (TSX:APH) have been showing superior profitability results thus far in addition to promising growth prospects. Both Aurora and Aphria are focused on efficiency and driving down the production costs per gram, while Canopy is not focused on profitability right now. Bruce Linton, Canopy's CEO, made this quite clear on numerous occasions.

### Could investors rush back to Canopy?

Canopy was once the only way to invest in cannabis on the TSX. Now there are many options, including a diversified ETF. The scarcity premium is gone, but there is one reason Canadian marijuana investors may fall back to good, old Canopy: producers with U.S. assets may be delisted since

marijuana is still illegal at the federal level. Aphria has invested a substantial amount in the U.S., so this matter is concerning for the producer, which recently reported a decrease in production costs in what many pundits believed was an “industry record.”

Aphria was high-flying and looked like it was going to surpass Canopy, but it ran into a wall. Canopy isn’t exposed to the U.S. like Aphria is quite yet, although plans may be derailed because of the state of legality south of the border.

### **Not the best financials right now, but not all is that bad...**

Canopy is bleeding cash, but it still has over 50,000 registered users and is set to make a mark on not just the Canadian market, but the German and Brazilian markets as well. Although profitability is not on the minds of the management team right now, branding and capturing as much market share as possible is. This may be a strategy that pays off years down the road, but for now, investors appear to prefer near-term profitability over any other sorts of promises.

Canopy sounds like a wild card in the marijuana space, but one thing is for certain: U.S. regulators won’t be cracking down on Canopy anytime soon because it’s not in the U.S. yet. That means delisting or trading halts isn’t in the cards, and that’s one less worry in an ocean of uncertainties that is the state of the Canadian marijuana scene right now.

### **Bottom line**

I’ve been bearish on Canopy since March, when I warned investors of an imminent crash. I made clear that my preference was for Aphria over Canopy at the time. Shares of WEED took a near 40% plunge following my warning.

When looking back at both businesses, I still prefer Aphria over Canopy because of one reason: superior profitability. But given the uncertainties following the future tradability of APH thanks to its “illegal U.S. investments,” I’d probably favour Aurora or even Canopy if you’re really keen on getting back into marijuana stocks — at least until the issue regarding Aphria’s future is resolved.

### **High risk is still present!**

Canopy’s crash looks to be over, but keep in mind that marijuana stocks are still speculative and will be subject to headline risks, political risks, systematic risks, market-wide risks, and other potential risks that may be unforeseen. Make sure you bet what you can afford to lose, because I have a feeling that intense volatility will make a comeback.

Stay smart. Stay hungry. Stay Foolish.

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1. TSX:ACB (Aurora Cannabis)
2. TSX:WEED (Canopy Growth)

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