Canopy Growth Corp.: Is This Stock Worth a Shot?

Description

Marijuana stocks continue to attract significant investor attention, especially after the strong pullback since February.

Let's take a look at **Canopy Growth Corp.** (TSX:WEED) to see if it deserves to be in your portfolio right now.

Focused growth

Canopy is doing all the right things as it consolidates its position as a market leader in the growing medical marijuana market and positions itself for the opening of a recreational market, potentially next year.

Management has made a series of key acquisitions, including the purchase of Mettrum Health, which provided a nice boost to the company's list of registered medical marijuana patients, added new national brands, and brought important production facilities into the fold.

Production growth is a core part of Canopy's strategy as it prepares for the opening of a Canadian recreational market pegged at a value of at least $5 billion per year.

In order to scale up quickly and do so in a cost-efficient way, Canopy has partnered with a real estate company, the Goldman Group. Under the agreement, Goldman will build or acquire properties and outfit them to meet Canopy's production requirements.

Canopy will then lease the facilities from Goldman.

In addition, Canopy purchased the property that houses its head office as well as the surrounding land. The building has enough space to nearly triple production, and the 42 acres of land offers expansion opportunities.

On the sales side, the company just reported fiscal Q1 2018 revenue of $15.9 million, representing a 127% increase over the same period last year.

Canopy set up a new online sales platform this spring to provide patients with a single location to access all of the company's brands as well as offer other producers an option to get their product to market.

International markets will be served by a new global brand that will initially focus on Germany and Chile.

Overall, the company is doing a great job as it solidifies its leadership position in the medical marijuana market.

What about the recreational market?

Canopy's market capitalization at the time of writing is $1.55 billion, which is a lot for a company with quarterly revenue of $16 million and a net loss of $4.4 million.

So, investors are betting on the recreational market that is supposed to open next summer.

The Federal Government maintains its optimism that Canadians will be able to legally purchase marijuana by July 1 next year, but several provinces are already asking for Ottawa to extend the timeline.

At this point, I'd be careful betting on a summer 2018 launch.

The provinces are burdened with all of the difficult decisions, including setting prices, determining sales outlets, and figuring out how to oversee the market in their own backyards.

Given the significant political risks of a botched rollout, it wouldn't be a surprise to see the whole thing get delayed for another year or two as the provinces try to get their ducks in order. As such, there is a risk that a significant pushback of the launch could hit marijuana stocks, including Canopy.

Should you buy now?

This company is poised to do well once the recreational market is finally up and running, and it could very quickly grow into its valuation.

If you think the recreation market will arrive on schedule, it might be worthwhile to start a position in Canopy, but I would keep the investment small right now.

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