Shopify Inc. or Canopy Growth Corp.: Which Growth Stock Could Soar in 2018?

Description

Shopify Inc. (TSX:SHOP)(NYSE:SHOP) and **Canopy Growth Corp.** (TSX:WEED) have both gained more than 100% in the past 12 months.

Let's take a look at the two Canadian market darlings to see if one might be a better pick heading into next year.

Shopify

Shopify's steady rise to consistent new highs hit a speed bump recently when an influential short seller, Citron Research, released a negative report about the company's marketing practices.

Citron claims marketing material on Shopify's website is in violation of U.S. Federal Trade Commission rules and says the stock is significantly overvalued.

Shopify slipped from $145 per share to about $120 in the three days after the Citron report. The dip caused quite a stir among analysts and pundits, but it's relatively insignificant considering the strong rally the stock has chalked up in 2017.

In fact, at the time of writing, Shopify is still up 113% on the year, trading at $123 per share.

A pullback was due, regardless of the reason, and while investors have to keep an eye on the situation in the near term to see how the market reacts to the Citron claims, Shopify's longer-term outlook should be solid.

Why?

Shopify reported 75% year-over-year revenue growth for Q2 2017. If that trend continues, Citron's criticisms could be quickly forgotten. Citron itself even says Shopify's technology is "the best build-your-own e-commerce software on the market."

In the near term, if Shopify makes another significant move to the downside, investors might want to consider adding a small position to their portfolios.

Canopy

Canopy is the market leader in the Canadian medical marijuana market, with more than 50,000 registered patients who purchase the company's products through its online platform.

Canopy has made all the right moves in its efforts to cement itself as the dominant player in the growing medical marijuana market. The company has consolidated the industry through strategic acquisition, is forming important partnerships to ensure adequate production capacity and supply, and is expanding its global presence.

The stock trades at a valuation that is tough to justify based on the current revenue stream, but investors are looking beyond the medical marijuana market to the potential launch of a Canadian recreational market in mid-2018.

With estimates starting at close to $5 billion for the potential size of the recreational market in this country, the upside potential for Canopy is significant and the company could quickly grow into its $2 billion valuation.

The stock fell about 50% from the February closing high to the lows in early June amid concerns the opening of the market could be delayed.

Announcements by a handful of provinces regarding their plans to launch on time next year are bringing investors back into the sector, and Canopy is up 60% in the past three months as a result.

If more provinces start to declare plans to open their recreational marijuana businesses next year, the recent run in Canopy could extend much further.

Is one a better bet heading into 2018?

Both Shopify and Canopy are attractive growth picks in the Canadian market, and while volatility should be expected in the coming months, the long-term outlook for the two companies should be positive.

At this point, however, Canopy might offer more upside torque in the near term, especially if the company announces a flurry of supply agreements with the provinces through the end of 2017 into the first part of next year.

Shopify's correction has been quite limited, given the scope of the Citron claims, so the stock could see more downside pressure before traders and the business media get bored and move on to the next story.

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Author
aswalker