



Is Canopy Growth Corp. a Buy at These Levels?

Description

I love that marijuana can now legally reach consumers who need it. I love the market opportunity. I love Canopy's competitive positioning in the industry thus far.

Big market opportunity

With over half a million square feet of indoor and greenhouse production, and partnerships with leading companies in the industry, **Canopy Growth Corp.** ([TSX:WEED](#)) is well on its way to capitalizing from the legalization of marijuana in a lucrative way.

The medical marijuana market is forecast to grow to over \$1 billion by 2024, and the recreational market is estimated to potentially be as high as \$5 billion to even \$10 billion.

Recreational use is expected to be legalized in 2018.

Rich valuation, yet many uncertainties remain

[I don't love the stock's valuation.](#) For me, it is too reminiscent of the dot.com era. Yes, the marijuana market is huge and promising, but there are so many uncertainties that remain, such as ultimate demand, pricing, competitive pressures, regulation, etc...

Booming sales are great, but it is another thing to establish a profitable business that creates value for shareholders.

Sign that shares are overvalued?

Canopy's shares dropped more than 3% the day of its quarterly results release. Canopy reported a doubling of revenue and a net loss of \$0.01 per share — a sign that expectations are really, really high; maybe too high.

To be sure, the \$245 million investment from **Constellation Brands Inc.** ([NYSE:STZ](#)), owner of Modelo and Corona beer brands, is a big positive for Canopy, as it opens the possibility of seeing

refined marijuana in Constellation beverages.

But if and when [investor sentiment](#) on the market turns, stocks like Canopy will be the hardest hit. Having doubled since the beginning of the year, and having risen from under \$3 in January 2016, there has clearly been some big money made in the stock up to this point.

The stock is trading at a price-to-sales multiple of 80 times, and with net losses persisting, there is elevated risk in the name. And so the risk/reward relationship on the stock is not a favourable one, in my view.

In the company's latest results, the first quarter of fiscal 2018, revenue increased 127% versus last year and 8% versus the last quarter. The net loss was \$1.6 million, or \$0.01 per share, as increased spending on the business weighed on results.

Timing is difficult to predict. But one thing that has held true in all my years of investing is that when a stock is priced for perfection, priced at levels that are disconnected with fundamentals, the day of reckoning usually comes as reality sets in.

As Warren Buffett once famously said, "buy when investors are fearful; sell when they are greedy."

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:STZ (Constellation Brands Inc.)
2. TSX:WEED (Canopy Growth)

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