

Canopy Growth Corp.: Should You Buy at the Current Level?

Description

Canopy Growth Corp. ([TSX:WEED](#)) has more than doubled its valuation in the past month, and investors who've missed the big run are wondering if more gains might be on the way.

Let's take a look at the current situation to see if Canopy deserves to be in your portfolio.

Recreational market outlook

Canopy is the market leader in Canada's medical marijuana sector, but most investors are buying the stock in hopes of capitalizing on the potential launch of a recreational market next summer.

What's the scoop?

The federal government is sticking to its plan to open the recreational marijuana market on July 1, 2018. When the framework was announced in the spring, many people figured the target date would have to be pushed out, given the enormous amount of preparation that is needed to open the market on time and in an organized way.

Ottawa has put most of the hard work on the shoulders of the provinces, and many have said they need more time to get the framework in place.

In recent months, however, several provinces have come out with their blueprints for selling recreational marijuana, and investors are beginning to believe the launch might actually occur next summer.

The impact for Canopy's shareholders could be significant, as estimates for the size of the potential market in Canada begin at about \$5 billion.

Growth opportunities

Canopy has done a good job of cementing itself as the leading company in the space. Management [acquired a number of competitors](#) early on in the process, and it has negotiated important deals with partners to ensure the company can grow its production capacity in an efficient manner.

In addition, Canopy recently announced a \$245 million investment by **Constellation Brands Inc.** ([NYSE:STZ](#)) for a 9.9% stake in the company.

Constellation is a major beer distributor and owns Corona. The company is eyeing the opportunity to sell cannabis-infused beverages in markets that allow the sale of recreational marijuana.

Should you buy?

Canopy recently reported fiscal Q2 revenue of \$17.6 million, representing a 107% gain over the same

period last year. The company had a net loss of \$1.6 million in the quarter.

At the time of writing, Canopy's market capitalization is \$3.5 billion, which is a lot for a company with annualized revenue of about \$70 million and no profits.

As such, investors have to be convinced the launch of the recreational market in Canada will [go as planned](#) next year, and the future opportunities are as big as expected.

Given the size of the gains in the past month, I would probably stay on the sidelines and wait for the next pullback. Canopy is a well-run business and could very well grow into the current valuation, but the rally appears a bit overdone right now.

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