



Canopy Growth Corp. Shares Are Among Today's Biggest Losers

Description

In yesterday's trading, we saw strength in energy shares — natural gas prices spike more than 4% higher — and weakness in more richly valued stocks, such as **Canopy Growth Corp.** ([TSX:WEED](#)), which is down 3.4% at the time of writing.

In a market that is seeing the new U.S. Fed nominee Powell imply that a December hike in U.S. interest rates is likely, investors may be paying more attention to valuation.

Recall that as interest rates rise, the interest rate used in a company's discounted cash flow analysis rises, thus reducing the present value of future cash flows.

Back to Canopy. While estimates for the medical marijuana market are highly bullish, these estimates cannot adequately reflect the industry which is in its infancy. There are many factors that are completely unknown, such as regulation, competition, and how the industry will actually evolve.

These factors are not, in my view, [adequately accounted for in estimates](#) at this time.

So, the forecasts appear to be made with rose-coloured glasses, and the market is gladly accepting them and is paying up big time for the stock.

As a reminder, the medical marijuana is currently forecast to grow to over \$1 billion by 2024, and the recreational market is estimated to potentially be as high as \$5-10 billion.

The stock trades at a price-to-sales multiple of 65 times, which is down from recent history earlier this year due to the stock price declining, but it is still reminiscent of the dot-com era.

I recommend remaining on the sidelines and waiting for valuation and the risk in the stock to decline.

Another company that is trading down today by 2.6% is **Sierra Wireless, Inc.** ([TSX:SW](#))([NASDAQ:SWIR](#)). And while Sierra's shares are not trading at the type of multiples that Canopy is trading at, they still are incorporating good growth in EPS in the years ahead.

But at least the company is [actually generating earnings](#) and cash flow.

With revenue growth of 12.8% in the latest quarter, a gross margin of 33.3% compared to 32.1% in the same period last year, and adjusted EPS of \$0.23 compared to \$0.13 in the same period last year for an increase of almost 100%, we can see that despite the volatility of the stock, the company is still thriving.

With organic growth returning after four quarters of contraction, and despite running below Sierra's medium-term organic growth target of 10-15%, Sierra remains well positioned to benefit from the Internet of Things machine connectivity opportunity.

Sierra remains the global leader in machine connectivity, and with its strong low-debt balance sheet and cash on hand, it is set to ensure it maintains this position.

Car connectivity will be a driving force for the company, as this market continues to see explosive growth and potential.

I view any weakness in Sierra's stock price as a buying opportunity.

CATEGORY

1. Investing
2. Tech Stocks

POST TAG

1. Editor's Choice

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3. TSX:WEED (Canopy Growth)

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