Could Canopy Growth Corp. Hit $40 in 2018?

Description

Canopy Growth Corp. (TSX:WEED) has more than doubled in the past three months, and investors who'd missed the rally are wondering if 2018 could deliver similar gains.

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

Growth trend

Canopy is Canada's leading provider of medical marijuana. In the latest quarterly financial report, year-over year revenue jumped 107% to $17.6 million.

Most of the gains came as a result of acquisitions in the past year, including the game-changing purchase of Mettrum Health in early 2017. The Mettrum deal added strategic national brands and provided an important expansion of Canopy's production capacity as well as new patients.

Quarter-over-quarter results were also impressive, with revenue increasing 11% and sales volumes up 10%.

Canopy now has 40 varieties available to its medical patients through the company's leading online platform.

Management is also actively pursuing opportunities overseas. Canopy owns a distribution business in Germany and has subsidiaries or joint-venture agreements set up in several countries, including Spain, Denmark, Australia, Chile, Jamaica, and Brazil.

The international businesses will market the company's global brand, Spektrum.

Partnerships

Canopy has entered important strategic partnerships to solidify its leadership position in the market. This includes a site-development agreement with the Goldman Group, which will see Goldman acquire or build manufacturing facilities and outfit them to meet Canopy's production requirements.

In addition, Canopy has opened its CraftGrow program to give smaller producers access to buyers through Canopy's online marketplace.

The biggest development is the recent $245 million investment in Canopy by **Constellation Brands**, the owner of Corona. Constellation is taking a 9.9% position in Canopy with plans to create cannabis-infused beverages for sale in markets where recreational cannabis use is legal.

Recreational market

Canopy's stock surge is primarily connected to the anticipated opening of a recreational marijuana market in Canada in the summer of 2018.

The stock took a hit in the first half of 2018 amid concerns Ottawa might push out the target date, but several provinces have now provided their game plans to open their respective markets, and investors are rushing back into Canopy's stock.

Analyst estimates put the value of the market at $5 billion or higher, so the potential is certainly attractive.

Could Canopy hit $40?

At the time of writing, Canopy trades for $19 per share, which translates into a market capitalization of $3.6 billion.

That's pretty expensive for a company with quarterly revenue of about $18 million and no profits. Canopy reported a net loss of $1.6 million in the most recent quarter.

That said, markets don't always act in a rational way, and I wouldn't be surprised if this stock takes a run at $40 next year, especially if more provinces roll out their launch plans in the coming months, and the federal government actually hits its July 1, 2018, target date to open the Canadian recreational market.

Should you buy?

The stock is probably overvalued right now, so I wouldn't back up the truck today in the hopes of another double off the current price, at least in the near term.

However, Canopy is the market leader and could potentially dominate the market in the coming years. If you are bullish on the sector and think the recreational market will open as planned, a small position on a pullback might be of interest.

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Date

2025/08/21
Date Created
2017/11/29
Author
aswalker