



Why Canopy Growth Corp. Shares Plummeted 7% Yesterday

Description

Yesterday's trading brought with it some big winners and some big losers.

In a volatile day that saw many energy stocks posting strong returns and many gold stocks get hit as the U.S. dollar strengthened off positive U.S. GDP data, we also saw something else that is interesting.

Among the hardest hit were **Canopy Growth Corp.** ([TSX:WEED](#)) and **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)), which fell 7.11% and 7.07%, respectively.

For now, it's all about valuation.

In Canopy's case, I think we are all in agreement that the potential for the marijuana market is massive, but with estimates currently forecasting the medical market to grow to over \$1 billion by 2024, and the recreational market to grow potentially as high as \$5-10 billion, and with so much that is yet to be established in this industry, I think these estimates need to be taken with a grain of salt.

By their very nature, estimates come with a margin of error. And in this case, the margin of error may be higher than we think. Over and above the macro industry picture, if we zero in on the different companies in the space, we have even more uncertainty as to how things will play out.

As we know, sometimes the first companies in a new industry are not the ones to survive and thrive.

The stock trades at a price-to-sales multiple of over 60 times, which is down from recent history earlier this year due to the stock price declining, but to me, it is still reminiscent of the dot.com era.

I continue to recommend remaining on the sidelines and waiting for valuation and the risk in the stock to decline. I will gladly miss out on the possibility of more upside because the downside risk is disproportionately large, in my view.

Shopify was also down big yesterday, and I think it was as a result of its [valuation](#). The stock now trades at a price-to-sales multiple of 19.5 times, and while consensus estimates are calling for the company to be earnings positive in 2017, if we start looking at price-to-earnings multiples, the

excessive valuation levels become crystal clear.

This leads me to question if too much is baked in to the shares and if the valuation has gotten ahead of itself. And I think it has.

Again, while both of these companies are in very promising industries and markets, there comes a time when valuation levels mean that [the downside risk](#) to shareholders, at least in the shorter term, is too high.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)
3. TSX:WEED (Canopy Growth)

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1. Msn
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Date

2025/07/03

Date Created

2017/11/30

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