Is Canopy Growth Corp. Stock a Buy After a 17% Plunge From the Peak?

Description

The price moves of the past three weeks show that investors are getting nervous about **Canopy Growth Corp.'s** (TSX:WEED) stock valuations.

After hitting a record $21.72, Canopy's shares have shed more than 17% of their value in the matter of three weeks. This plunge leaves momentum investors wondering if this is an opportunity to jump in or the first sign of a deep correction.

Let us see what the key growth triggers are for Canopy stock and if they are still intact to justify the rich valuations.

Legalization deadline

There is no doubt that the federal government is very serious to meet the July 1st deadline to legalize the recreational use of cannabis in Canada, but there are still some roadblocks on the way that could delay the launch.

The Senate, on November 30, began to debate the Bill C-45, which the House of Commons has already passed, but the debate in the lower house could drag on for months before we see this last legislative hurdle removed to open the market by the next summer.

The federal government seems very firm to meet its self-imposed timeline after announcing a comprehensive framework in the spring. Still, provinces have a big role to play to get everything in place. Provinces, police groups, and First Nations have argued that they will not all be ready in time to deal with the consequences of legalization, calling for delays before the market opens.

In the meantime, a new poll from the Angus Reid Institute found that two-thirds of Canadians support legalization, but that 47% of respondents said the July 1st timeline should be pushed back.

Rich valuations

One big reason behind the wild fluctuations of Canopy's stock price is that investors are not too sure about its rich valuations.

There is no doubt that Canopy is the market leader in Canada's medical marijuana sector, but there is still guesswork to the depth of the recreational demand.

As my fellow analyst Karen Thomas pointed out in her recent article, we should take with a pinch of salt the estimates of $5-10 billion recreational market.

Canopy stock, after doubling its value this year, now trades at a price-to-sales multiple of over 60 times, which is big enough to raise an alarm.

The bottom line

Having discussed the risks and valuations, I still think Canopy stock is well positioned to produce hefty returns for its investors after its smart acquisitions and its recent stake sale to **Constellation Brands Inc.** for $245 million.

Investors with a two- to three-year horizon can make a good return by buying Canopy Growth stock , even if the government misses its deadline to legalize the market. And the recent pullback offers a good opportunity.

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