Canopy Growth Corp.: Buy Now or Wait for a Lower Price?

Description

Canopy Growth Corp. (TSX:WEED) has given back some of its recent gains, and investors who missed the big run over the past two months are wondering if this is the right time to pick up the stock.

Let's take a look at Canada's largest medical marijuana company to see if it deserves to be in your portfolio today.

Valuation

At the time of writing, Canopy trades for $18 per share. That translates into a market capitalization of $3.44 billion.

Canopy generated $17.6 million in revenue in its most recent quarter and delivered a net loss of $1.6 million, so the valuation looks pretty steep based on those numbers.

If you only take the medical marijuana market into consideration, there's no way to justify the price investors are paying for this company today.

However, the big prize everyone has their eye on is the recreational opportunities in Canada and abroad.

Recreational market

The Canadian government is hoping to open a recreational market for marijuana in the summer of 2018. Analyst estimates vary, but the starting point for the market value is about $5 billion. Canopy is the largest player in the space and many traders assume the company will win a big chunk of the recreational market.

The challenge for investors is to decide if they are willing to pay up today for potential revenue that might not materialize.

Remember, the stock took a big hit earlier this year, as traders started to doubt the recreational market would open according to the federal government's schedule. Most of the burden falls on the shoulders of the provinces, and through the first half of this year, many complained they would not be ready in time to meet the 2018 target.

In recent months, however, some provinces have released their blueprints for a recreational marijuana market, and that has provided a new sense of optimism for investors.

Canopy's stock went from $7 in June to above $21 last month before the recent pullback.

Corona factor

The stock also received a boost in the wake of the news that **Constellation Brands**, which owns Corona, is taking a 9.9% equity position in Canopy.

The company is looking at the possibility of launching cannabis-infused beverages in markets where recreational marijuana use is legalized.

Foreign markets

Fans of the stock are also looking at Canopy's global expansion plans. The company already owns a distribution company in Germany and has negotiated partnerships or joint ventures in several countries, including Australia, Spain, Brazil, Chile, Jamaica, and Denmark.

If the legalized recreational pot wave rolls across the globe as expected, Canopy could become a market giant.

Should you buy?

Canopy's management team is making all the right moves, and if the stars align, as investors hope, this company could quickly grow into its valuation.

However, paying $18 per share today carries risk, as we saw with the pullback that occurred in the first half of this year.

If you think the Canadian recreational market will launch as planned, it might be worthwhile to hold a small speculative position in the stock, but I wouldn't back up the truck today, even after the recent dip.

A better opportunity could present itself in the coming months.

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