



Has Canopy Growth Corp. Run out of Steam?

Description

Canopy Growth Corp ([TSX:WEED](#)) has been running strong recently. In the past three months its share price has doubled. However, things slowed significantly last month as the cannabis producer took a backseat to other big sector stocks. **Aurora Cannabis Inc** ([TSX:ACB](#)), has made the [front pages](#) about its desire to acquire **Cannimed Therapeutics Inc** (TSX:CMED).

Even **Aphria Inc** (TSX:APH) has seen its stock price soar recently on news that it had [reached a deal](#) with Shoppers Drug Mart, a **Loblaw Companies Ltd** ([TSX:L](#)) store, to sell marijuana.

In an industry with minimal profits and expectations largely based on future growth, stocks have been very sensitive to industry-related news and developments. Should Canopy Growth secure a deal with a major customer tomorrow, it would surely send the stock above \$20. The problem is, bad news would send the stock plummeting as well.

Has the stock peaked?

Valuations are very high in the cannabis industry and Canopy Growth is proof of that. With earnings consistently in the red, there's not much in the way of profits that Canopy Growth can use to justify its price point.

Its top line has been showing significant growth, and investors have been paying a big premium for that well as the expectation that even more growth is on the way.

That said, if the company continues to build on its earnings with another good quarter or secures another supply deal, the premium that investors are paying will only climb higher. In a new industry with ever-evolving rules, it's hard to gauge what a cannabis stock should go for.

Although we could look at multiples to sales, there are many other variables to consider. When stocks are surrounded by megahype, logic often has no place amid the frenzy.

Is the stock still a good buy?

With Canopy Growth's stock down in the past month, the company's growth has slowed drastically from the incredible trajectory it has been on for months. It could therefore be a great opportunity for investors to get in on a stock with lots of growth potential.

If the company continues to grow at this incredible pace, it will only be a matter of time before the share price starts to rise again. In its most recent quarter, Canopy Growth's revenue doubled. As the company continues to acquire companies and secure partnerships, its top line will only keep rising.

The one downside for investors is that the past three quarters have been in the red as expenses have continued to climb. However, in a growing industry undergoing many changes, investors will need to exhibit some patience, as Canopy Growth is still in its early stages.

Although the company has posted losses, it hasn't been deep enough in the red to raise alarm bells for investors. With little debt on its books, Canopy Growth is still in good enough shape to fund future growth opportunities.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ACB (Aurora Cannabis)
2. TSX:L (Loblaw Companies Limited)
3. TSX:WEED (Canopy Growth)

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