Canopy Growth Corp.: A Good Time to Buy?

Description

Canopy Growth Corp. (TSX:WEED) went on a wild ride in 2017, trading in a range of $7 to above $30 per share.

Let's take a look at the current situation to see whether Canada's largest cannabis company deserves to be in your portfolio.

All the right moves

Canopy's management team deserves credit for solidifying the company's position as the market leader in a rapidly expanding medical marijuana industry, and for positioning the firm to benefit from the expected opening of the Canadian and international recreational markets.

Canopy made strategic acquisitions at opportune times, including the game-changing takeover of Mettrum Health in early 2017. The move added important production capacity and national brands while consolidating the industry to the point where Canopy serves about 50% of the medical marijuana patients in the country.

Management also entered into an agreement last year with the Goldman Group to help ensure that Canopy can grow its production facilities fast enough to meet anticipated demand for its products. Under the arrangement, Goldman will build or buy facilities and outfit them to meet Canopy's specifications. Canopy will then lease the sites from Goldman.

Finally, the company has cleverly set up its CraftGrow program to give some producers access to customers through Canopy's online sales platform. The deal benefits the smaller players in that they don't have to spend the time and money to build their own platforms, while Canopy maintains control over the sales channel and picks up some extra revenue to boot.

International reach

Canopy also has its sights on international opportunities. The company owns a pharmaceutical distributor in Germany and has partnerships or joint-venture agreements in a number of countries, including Spain, Australia, Brazil, Chile, and Jamaica.

Canopy is marketing its product under a single brand banner in the foreign markets.

Recreational market

Canada is expected to launch its recreational market in the summer of 2018. The federal government is sticking to the schedule and the provinces are scrambling to get their respective plans in place. Canopy’s stock fell throughout the first half of 2017 amid worries that the 2018 launch target might have been a bit too optimistic. Provinces and municipalities voiced concerns that they would not be able to get their ducks in order in time to meet the deadline.

Since then, a number of provinces have provided their game plans, bringing renewed confidence to the market. Canopy rose from $7 per share to above $30, where it continues to trade at the time of writing.

Estimates for the size of the Canadian recreational market start at $5 billion, so it’s easy to see why investors are hungry for the stock.

Canopy’s shares also received a boost in the wake of the announcement that **Constellation Brands** (NYSE:STZ)**,** the owner of Corona, took a 9.9% stake in the company.

Constellation is planning to sell cannabis-infused beverages in markets that allow the sale of recreational marijuana.

Should you buy?

Canopy has a market valuation of more than $5 billion, which is a lot for a company that generated revenue of less than $18 million and experienced a net loss in its most recent quarter.

So you have to be confident that the recreational market will unfold as planned in order to buy the stock at the current level.

That might well happen. If it does, Canopy could quickly grow into its valuation, but things could be a bit stretched right now, so I would keep any new position small at this point.

In fact, if you had the foresight to get in at a much lower price point, it might be a good idea to bank some gains today.

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