Why Canopy Growth Corp. Will Hit $50 This Year

Description

Investors of **Canopy Growth Corp.** (TSX:WEED) have been taken on a wild ride lately with the company's share price dropping more than 30% in just the last month after soaring for much of 2017. From highs of over $40 in early January, the stock finished the week at a little over $28.

Despite the recent sell-off in the market, it could be a great buy at this price, as I see a path for it to hit $50 before the year is over.

Did the stock find a floor?

While Canopy saw a big drop in share price after the slide the TSX went on early in the month, it appeared to have found support at ~$24. The more recent dip saw that support level climb to over $25, which is a good indicator that the stock might not have a lot of downside risk.

Why the share price will likely continue to climb

While recent acquisitions in the industry have raised questions about valuations, there are still reasons why pot stocks like Canopy and others will continue to climb.

When it comes to speculative investments, price is often very sensitive to news and developments. As we get closer to the legalization of marijuana, the excitement will likely reach a fever pitch and will give pot stocks an even bigger boost.

The only way I could see Canopy not being able to rise is if legalization were derailed somehow, which, at this point, appears unlikely given the importance the Liberal government has placed on fulfilling one of its key election promises.

In addition, Canopy's stock currently trades at a price-to-sales (P/S) multiple of nearly 100. As the company's sales continue to grow, so too will the share price. In the trailing 12 months, Canopy's sales have topped $58 million, and in the most recent quarter, its top line doubled from a year ago.

If we see that trend continue in its next earnings release, then sales will approach $68 million, and if the P/S ratio remains consistent, then the shares could be valued at more than $34. However, investors have been willing to pay even larger premiums for pot stocks, with **Aurora Cannabis Inc.** (TSX:ACB) trading at more than 200 times its sales.

It may be hard to gauge what multiple of sales Canopy will trade it, but we can assume that given the market conditions, a multiple of 100 may be at the low end of the spectrum. Should that multiple rise to 150, then the stock would clear $50 a share if it can continue along with its rapid growth.

Bottom line

Investors are paying big premiums for pot stocks, and those companies that are making big moves, like Aurora, are being rewarded with higher valuations than their peers. Although recently, Canopy has taken a backseat, as Aurora and **Aphria Inc.** have dominated the headlines, that could change quickly.

Canopy has shown that it can secure strategic partnerships and supply deals, and those will be key to growing in a highly regulated industry where advertising will be limited. Canopy's strong name recognition will help ensure that it garners top dollar for its stock.

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