# Canopy Growth Corp. Is Down 33%: Time to Buy?

## Description

**Canopy Growth Corp.** (TSX:WEED) was all the rage going into 2018. It reached as high as $44 per share in early January before it proceeded to drop, hitting under $25 before rising a bit to under $28 today. And, to be honest, this wasn't all that surprising.



Canopy was up nearly 200% in three months, which obviously excited investors, but it had divorced any sort of fundamentals, operating purely as a speculative play. And when a stock is purely speculative, you run the risk of things becoming a bit bumpy.

Now that the company has given up a third of its value, prospective investors who'd missed the rocket ship last time are wondering if they should start buying for the next stage of growth.

If we were to try to value Canopy with proper earnings analysis, this stock is way too expensive. It'd take years of growth for Canopy to get into a position where the earnings are more in line with what other more traditional companies typically trade at.

But Canopy is not a typical company. The marijuana business is still nascent, but investors are treating it like a long-term growth investment, expecting that Canopy's business will grow so much that it'll turn into a far larger company than it is today.

Many signs point to that happening.

First, Canada is moving to legalize marijuana; and starting this summer, the recreational play will be in full swing. New Brunswick will buy 4,000 kilograms of marijuana from Canopy and allow pot stores to open. Ontario will allow specialty stores to sell marijuana, but not dedicated ones. Alberta will require government-regulated distributors to be wholesalers. And in Newfoundland and Labrador, Canopy will sell 8,000 kilograms of pot per year and open four retail outlets.

This is a big move for the company, because right now, it only has 69,000 medicinal customers. While the company sold 2,330 kilograms at an average price of $8.30 per gram in the most recent quarter, that's far lower than what it could sell if recreational takes off in the country.

Second, Canopy got a major investment from **Constellation Brands, Inc.** (NYSE:STZ) and sold a 10% stake to the company. Constellation owns brands such as Corona, Modelo, Svedka, and a variety of other beer, wine, and spirits. Constellation's investment in Canopy means that it thinks cannabis-infused beverages could be a big business.

And finally, through a joint venture, Canopy has received permission from British Columbia to open a 1,300,000-square-foot hybrid greenhouse. The expectation is that it will produce cannabis for sale by July 2018.

So, should investors buy Canopy? I would invest a little bit of money in it. Marijuana remains very hot, and Canopy is the best play in the market. It's in a better position to win than any other marijuana company, so Canopy should start rising again in the coming months. However, understand that it's purely speculative, and unlike other great investments, its valuation isn't based on fundamentals.

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