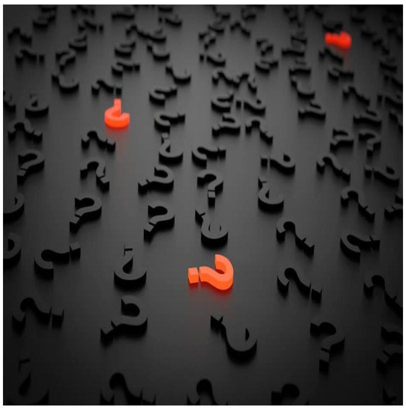

# Could Marijuana Stock Canopy Growth Corp (TSX:WEED) Actually Be a Good Buy for Value Investors?

## Description

Looking at the returns of marijuana stocks such as **Canopy Growth** (TSX:WEED)(NYSE:CGC) surely leaves many value investors that have stayed away with a whiff of regret.



Year to date, Canopy Growth stock has returned 60%, and this follows a 250% return the prior year.

So, while we can say that this stock has not followed the tenets of value investing, and therefore there was a fundamental reason to stay away, we may nevertheless be left with this sense of regret.

Moving forward, what do value investors do now?

Is it too late, or does this stock still have room to move higher?

Well firstly, let's look at some of the big recent developments that can give us confidence in the company's future.

**Health Canada licences**

Health Canada has recently announced amendments to licences that effectively almost double the growing capacity at its Smith Falls facility, give additional space in its Quebec greenhouse, and licence a state-of-the-art distribution centre at Smith Falls.

All of these contribute significantly to the company's positioning and advantage in the industry, further catapulting it ahead of the competition.

**Constellation Brands** (NYSE:STZ)

In a significant move, Constellation Brands invested $5 billion in Canopy, taking its ownership to 38% and providing Canopy with much-needed funds to finance its growth plans for continued international expansion.

It was a big vote of confidence for the marijuana industry, and Canopy in particular, but maybe not such a great move for Constellation considering the price paid.

**The future**

On to the future and what we can expect.

Canopy is clearly continuing to solidify its first-mover advantage.

For those value investors that are comfortable with the elevated risk that this stock presents, keep the following points in mind.

This stock is trading at a 120 times price-to-sales multiple. It has withstood many consecutive quarters of the company reporting larger-than-expected losses, and at this time it is expected that the company will be generating a profit only in 2020, but this remains very uncertain.

And while the market seems to be handling the uncertainty extremely well, this can shift dramatically.

As a case in point, we have **Aurora Cannabis** (TSX:ACB) stock.

With a year-to-date return of negative 32%, which follows a 293% return in the prior year, we can get a clear indication of the type of volatility we are seeing in marijuana stocks, how it looks on the downside, and how quickly it can turn.



Similarly, **Aphria** stock is currently trading 44% lower than the beginning of the year. This follows a 261% return in the prior year.

Again, we can see this extreme volatility that increases the risk profile of these marijuana stocks.

Lastly, I will say that as investors, when we consider investing in a stock, we should be looking at potential returns weighed against potential downside — a risk/reward analysis.

And with marijuana stocks such as Canopy Growth stock, only long-term investors who are willing to stomach the potential downside and keep their eyes on the long-term potential upside should consider investing.

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