Here’s the Real Reason I Won’t Buy Canopy Growth (TSX:WEED) Stock

Description

With all the bullishness around weed stocks at the moment, should investors be more concerned about an overlooked detail regarding **Canopy Growth** (TSX:WEED)(NYSE:CGC)?

The recent deal with **Constellation Brands** allows the U.S. beverage company to buy even more shares of Canopy Growth down the road, allowing Constellation Brands to increase its ownership of the Canadian marijuana grower to more than 50%. It also allows Constellation Brands to nominate four out of the seven directors on Canopy Growth’s board of directors.

But the other big thing that should be pointed out is that the deal is subject to regulatory approval. It hasn’t gone through yet, though blaring headlines seem to declare otherwise. Are investors partying prematurely? Perhaps: according to the *Financial Post*, the proposed investment in Canopy Growth is subject to review under the *Investment Canada Act* to ascertain whether it will benefit the Canadian economy. In other words, watch this space.

Canopy Growth is poor value – and that’s why I won’t buy

Overvalued by almost 19 times its future cash flow value, Canopy Growth is extremely poor value at the moment. Since the company is still making a loss, the majority of its market fundamentals are unreadable, but we can see from its P/B ratio of 9.2 times book that new investors simply are not getting good value for their money at the current price.

However, Canopy Growth is signaling an 85.4% expected annual growth in earnings, which is good news for growth investors who don’t mind a bit of risk. A high level of debt (over 50% of current net worth), and lack of dividends make one wonder what anyone else’s incentive to buy this highly volatile stock might be, however.

It might be too early to invest for the long run

Value investing makes a lot of sense at the moment – and the TSX is great for just that. We have so many great value stocks to choose from in sectors that are usually a lot more expensive to get into if you compare them with other world markets. Precious metals, commodities, cyclical and defensive stocks – you can get some real bargains on the Canadian markets, whatever your style, and some large dividends as well.

Investing in weed is a good capital gains play, and one that no doubt has already paid off for some people who bought in when these stocks were cheap. But for investors looking to line their TFSAs and RRSPs, they're a gamble. More than a few retirement investors have been pulling out of sensible positions to buy pot stocks, swayed by constant bullish headlines.

Sure, over the long term some of these stocks may stabilize, but at the moment it's too early to tell which companies will come out on top. Is Canopy Growth a **Facebook** or a Myspace? Even with big early investors like Constellation Brands, the future is uncertain – and in today's economy any extra uncertainty is not a good thing.

The bottom line

The market's knee-jerk reaction to **Constellation Brands** *proposed* investment (it is subject to regulatory approval, after all, and won't be finalized until October at the latest) shows just how volatile Canopy Growth stock is. For everything that is going right for Canopy Growth, at the end of the day it's still a loss-making venture, and its stock simply is not any more suitable for value-focused investors than the FAANG stocks it is beginning to resemble.

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