Is Canopy Growth Corp (TSX:WEED) Still a Buy After its Massive Rally?

Description

It's been a wild few weeks for **Canopy Growth Corp.** (TSX:WEED)(NYSE:CGC). In less than 10 days, the stock rallied from $32.15 to $52.10–a 62% gain. For most stocks, that would be an incredible annual return. For just a few days, it is absolutely phenomenal; a rally that harkens back to the heady days of 2017's "crypto mania."

Now, the logical question is this: "*Is Canopy still a buy*"?

To answer that question, we need to look at the factors driving the rally and what they mean for the company.

The $5 billion investment

The most obvious factor influencing the recent rally was the announcement that **Constellation Brands Inc.** (NYSE:STZ) would invest $5 billion in Canopy. Constellation purchased its shares as part of a deal with Canopy (rather than on the stock market), which means that the sale will inject approximately $4.5 billion in cash into the company.

This has a number of ramifications for Canopy, almost all of them positive. The company now has more funds to invest in infrastructure and overseas operations. New facilities in foreign countries could give Canopy more direct access to overseas markets. R&D investments–such as new cultivation techniques and technologies–could increase yields and lower the cost of revenue. New product lines could be developed, with beverages and sleep aids being two possibilities cited by Canopy's CEO Bruce Linton.

It remains to be seen what Canopy will do will the proceeds from the deal, but the possibilities are endless. We have solid hints that international expansion and new product lines are among them.

Impending legalization

As most Canadians know, cannabis will be fully legalized on a federal level on October 17. This gives Canopy a clear path to increased revenue. Deloitte & Touche estimates that the recreational marijuana market in Canada is worth $8.7 billion annually. By contrast, the medical marijuana market is worth $5.7 billion a year. This makes the recreational market significantly larger than the medical market Canopy currently serves. In other words, in the domestic part of its operations, Canopy will soon have a much larger potential customer base to tap into. This could mean significant revenue growth if the company plays its cards right.

Red-hot revenue growth

Canopy is already seeing significant revenue growth in its core operations. In its most recent income statement, the company announced that it had grown revenue 63% from the same quarter last year, which is very strong growth. However, it should be noted that the company's net loss increased in the same quarter, as a result of mounting costs.

Clearly, the cost of generating revenue is a major sticking point for Canopy. The question investors need to ask themselves is whether Canopy's partnership with Constellation brands and opportunities in the recreational market, will bring the company to profitability. Personally I'd wait on future earnings announcements–after legalization has taken effect–before investing in Canopy.

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