



Has Canopy Growth Corp. (TSX:WEED) Stock Hit a Peak?

Description

There is going to be significant growth when pot sales become legal and other countries take similar steps to legalize cannabis, but the levels at which pot stocks are trading today suggest that we may see a big correction down the road. Early on in the year, it looked like that was happening, but the excitement about [beverage companies linking up with marijuana stocks](#) has taken over, and euphoria is back in full force.

While not all stocks have had strong returns this year, **Canopy Growth Corp.** ([TSX:WEED](#)) (NYSE:CGC) is one that stands out in particular. Year to date, the stock is up over 80%, and in the past 12 months it has soared over 500%. The stock is coming off an all-time high of over \$62 a share, and with a market cap of over \$12 billion, it is becoming one of the largest stocks on the TSX.

To put this into perspective how high of a value this is, consider that **Canadian Tire Corporation Limited** has a market cap of around \$11 billion, while **Shaw Communications Inc.** sits at \$13.6 billion. Canopy Growth is also well ahead of **Stars Group Inc.**, which has terrific growth potential as well, especially in light of the U.S. recently [loosening its legislation around sports betting](#). The comparable companies listed above are successful, well known, and have been able to post profits with some consistency.

To put Canopy Growth in that same bucket and above some of those companies is simply ridiculous, and just puts an exclamation mark on how overpriced pot stocks have become. For me to think that the stock is a good buy at its current price, I'd have to believe that everyone in the world is going to be smoking or ingesting pot within a few years.

Even if you did believe that the growth will be tremendous, many people are assuming that the black market will disappear and all the sales will flow through to licensed companies, which is far from a given. It's going to be a long process, and the potential may never be realized, yet investors are pricing pot stocks as if it is a foregone conclusion.

There are also many uncertainties when it comes to marijuana, and investors shouldn't rule out the possibility that the industry takes a step back. As cannabis becomes more mainstream and more

widely used, we'll see the consequences – both good and bad – of legalization, and we could see additional red tape as a result of it, which could hurt growth prospects for the industry.

Bottom line

Paying a big premium for a company that is nowhere near profitable and relying solely on where it could be years down the road is akin to buying magic beans and hoping for a big beanstalk to grow outside your door. While I wouldn't be surprised if Canopy Growth and other pot stocks continue to rise in price, that doesn't make them a good buy. The risk involved at this point makes the industry an attractive option for speculators, but not for investors looking to find good value.

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