



Is the Canopy Growth Corp. (TSX:WEED) Hype Warranted?

Description

“This is the biggest opportunity for investment, not unlike investing in a liquor company at the end of prohibition.”

That phrase has been floating around over the past two years ever since the federal government announced plans to legalize recreational marijuana. For the most part, the gains that investors have realized from cannabis stocks such as **Canopy Growth Corp.** ([TSX:WEED](#))(NYSE:CGC) have been incredible.

It does, however, beg the question as to whether there is still an upside to investing in Canopy, particularly with legalization just a few weeks away and the stock doubling in value over the course of the past two months. Let's look at the case for and against investing further in the stock.

Two reasons you should invest in Canopy now

There are a lot of [great reasons to consider](#) investing in Canopy. First and foremost, this is an entirely new segment of the economy, which is going to spawn off into multiple new complementary products. In recent months, we've seen the way beverage companies are lining up to form agreements with Canopy and others — agreements that will help bring a line of cannabis-infused drinks to market over the next few years.

That could easily expand into other edibles, oils, incense, clothing, and others. The possibilities are nearly endless, but the supply of cannabis will always come from Canopy or one of its peers.

The second point to consider comes in the form of international expansion. Canopy has amassed an impressive distribution network over the past two years that includes access to international markets, where access and legalization will lag behind Canada.

This puts Canopy into a prime position to capitalize on providing a high-quality and legal source of product to those international markets, many of which have a much larger potential market size than Canada.

Two reasons to hold off investing more (or at all)

Not to be dismissive of the potential that Canopy does hold, but the company's stock price has shot into the stratosphere over the past few months, and with that increase, Canopy's market cap has shot passed \$15 billion.

Incredibly, Canopy's revenue is still at just \$25.9 million as of the most recent quarter, which was 63% higher than in the same quarter last year. In fact, Canopy isn't even making money yet. The company is still in an aggressive start-up mode, where it is burning through cash to expand operations.

In the most recent quarter, Canopy reported a net loss of \$90.98 million. Coincidentally, the net loss attributed to the entire prior was just \$54.13 million. This factor alone should raise some eyebrows with more conservative investors.

Finally, there's the market potential. Investors in Canada may have a bit of a pot fever lately, noting the immense potential of investing in Canopy, but some of that can be attributed to plain old FOMO (fear of missing out). Consider this: each of Canada's provinces has or is well underway in establishing a supply source once legalization becomes law.

Not all of the provinces will necessarily set Canopy as their preferred source, as there are other cannabis suppliers with a line-up of products that are of equally high standards. Further, not all of the population is likely to jump into the recreational marijuana market.

In short, emotions are high and we may be making more of this than needed to.

Bottom line – – should you invest?

I'm a big fan of what Canopy and its peers have done so far to hit the ground running. This is a new segment of the economy with massive potential that is not going to disappear overnight but rather expand over time.

With that being the case, investors should view Canopy as a long-term investment with growth prospects that could extend for years, rather than looking just at the past few months. If you can ignore the expected volatile drops and hikes, Canopy will make an [excellent long-term addition](#) to nearly any portfolio.

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