

Can Marijuana Stocks Such As Canopy Growth Corp. (TSX:WEED) Live Up to the Hype?

Description

We have been through groundbreaking changes before.

The emergence of the internet, the sequencing of the genome in the [biotech industry](#), and [clean energy](#) were and still are groundbreaking changes that have made some millionaires and lost some fortunes.

Today, the legalization of marijuana is the major change that will finally be upon us this month, but it has driven market moves for awhile now as investors try to get in ahead of the event.

Marijuana stocks have been soaring as investors are expecting this industry to be the next big thing. It is expected to be as big as \$57 billion by 2027.

With a market capitalization of \$14.4 billion, **Canopy Growth Corp.** ([TSX:WEED](#))(NYSE:CGC) is the biggest and most well-established Canadian marijuana company.

Revenue in the latest quarter, the first quarter of fiscal 2019, increased 63% to \$25.9 million as demand was strong and the average selling price per gram increased \$1.00 compared to the same period one year ago.

Canopy Growth stock is trading at a price to sales multiple of 164 times, a very hefty price to pay for an industry that still has so many question surrounding it as it is still in very early stages.

Aurora Cannabis Inc. ([TSX:ACB](#)) stock is approaching its all-time highs again as recreational legalization fast approaches.

Aurora stock has a market cap of \$11.9 billion and is trading at a price to sales multiple of 145 times.

Aphria Inc. (TSX:APH) is coming off its highs again in the last few weeks, but this \$4.1 billion stock trades at a price to sales multiple of 112 times and a price to earnings ratio of 89 times during a period when the details of the way the whole industry will shake out are still very uncertain.

From cannabis-infused drinks and edibles, it appears the market is pricing in blue sky demand.

But the question is, will this actually be realized or will the reality not be as rose-coloured as current expectations?

We'll soon find out.

In the early 2000s, any biotech company who was working on anything genome-related saw its stock soar no matter what the stage of the research, the financials or the company's track record.

Similarly, the fuel cell was a big thing back then, and **Ballard Power Systems Inc.** ([TSX:BLDP](#)

)(NYSE:BLDP) soared to over \$150 per share on excitement regardless of the actual business fundamentals of the company.

It subsequently almost went bankrupt and currently trades at approximately \$5.40.

Will the marijuana trade fizzle out and prove similar to these examples?

If you look at **Tilray Inc.** ([NASDAQ:TLRY](#)), which launched its initial public offering this summer at \$17, you can see what I'm referring to.

The stock shot up from its \$17 IPO price to \$154 in a matter of two or so months. This, to me, is reminiscent of the dot-com bubble, and it give me a very uncomfortable feeling.

This tells me that there is a lot of fast money here, and that there is certainly a bubble around these marijuana stocks.

So I will be the voice of caution in the frenzy with the hope of reminding investors to keep their eyes on the downside risk of the stocks in which they choose to invest.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. NASDAQ:TLRY (Tilray)
3. TSX:ACB (Aurora Cannabis)
4. TSX:WEED (Canopy Growth)

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