

Canopy Growth Corp (TSX:WEED): Will This Top Marijuana Stock Crash or Soar in 2019?

Description

Now that legal recreational marijuana sales have begun in Canada, investors are wondering if the top stocks in the [cannabis sector](#) can maintain their huge gains heading into 2019.

Let's take a look at **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) to see if it deserves to be in your portfolio right now.

Volatility

At the time of writing, Canopy Growth trades at \$55.50 per share. A week ago, the stock was as high as \$76. Investors who'd bought at that level in the hopes of a major post-legalization surge are probably a bit nervous today. However, shareholders who took positions in Canopy Growth stock at this time last year are likely feeling pretty good, despite the recent drop. They paid about \$13 per share to own a piece of the company.

As the marijuana market continues to evolve, investors should expect more volatility, and short-term drops or rallies in the 20-40% range could be the norm for quite some time.

If you are the type of investor who loses sleep when a stock in your portfolio takes a big hit, as we saw with Canopy Growth in the past five trading sessions, it would be best to look for other opportunities in [different sectors](#).

Valuation

A quick look at the valuation of Canopy Growth is another reason to be cautious. The company currently has a market capitalization of just under \$13 billion. This is lofty for a business with annualized revenue of about \$104 million, based on the most recent quarterly sales of \$25.6 million. The company reported a net loss of \$90 million for the quarter ended June 30.

On the positive side, sales of medical marijuana are ramping up at a healthy clip. Canopy Growth supplies medical cannabis products to more than 85,000 registered patients, making the company a leader in the industry. The firm's success in Canada and Europe is expected to continue and expand, as Canopy Growth now has operations in at least 11 countries.

At home, Canopy Growth has retail licences in Newfoundland and Labrador, Manitoba, and Saskatchewan. The company is also positioning itself to have a strong retail presence in Alberta and Ontario. Estimates put the value of the Canadian marijuana market at \$5 billion per year or higher, so there is potential for revenue to take off in 2019 and beyond.

Canada is just the second country in the world to legalize the sale of recreational marijuana, and pundits expect many more will follow. The potential prize in other regions is much larger. For example,

one report suggested the annual marijuana market in Europe could top US\$100 billion by 2028. Another report puts annualized opportunities in the United States at US\$75 billion by 2030.

These are the types of numbers that have investors willing to pay such a huge premium for Canopy Growth and its peers today. If the market evolves as expected, Canopy Growth could reasonably grow into its valuation.

Partnerships and acquisitions

Canopy Growth was an early mover on the development of strategic partnerships and the acquisition of key players in the industry, and that trend continues.

The company is now 38% owned by drinks giant **Constellation Brands**. The two firms are developing cannabis-infused beverages for the anticipated launch of the marijuana edibles and drinks market in 2019.

Canopy Growth is also boosting its capabilities in the creation of other cannabis-based products, both for medical and non-medical use. The company just announced a \$425 million deal to buy Ebbu, a hemp research company located in Colorado. Innovation is viewed as being a key driver of success in the cannabis sector, and the purchase should ensure Canopy Growth remains at the top of the industry.

Should you buy?

Canopy Growth is doing all the right things to ensure it captures a significant part of the evolving Canadian and global marijuana markets. I wouldn't back up the truck, given the extreme valuation and the potential for a significant pullback, but the stock is probably a good bet if you think the cannabis industry will expand as anticipated.

Otherwise, there are additional emerging opportunities to consider today.

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