



Danger in the Data: Sell This Canadian Cannabis Stock Now

Description

If you were to listen to the hype, you would either be buying or sitting on stock in **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) right now. Even after the whimper that followed legalization, pundits are still advising investors to either get deeper into their Canopy Growth positions or sit on their hands.

However, if you ignore the still-bullish hubris and look at the data, a very different signal emerges — one based on facts rather than emotion. Let's take a look at what the facts and figures tell us about the truth behind Canopy Growth today.

Too big to fail or too proud before a fall?

This stock's market cap (\$15 billion, to put a figure on it) sticks out like a sore thumb. After poring through the rest of the figures for this stock, that massive capitalization seems almost incongruous. A chilly start to legal pot season makes the wayward fundamentals of this stock feel particularly uncomfortable, such as a PEG in the minus figures and a bloated P/B.

A comparative debt level of 50.7% of net worth is too high for so volatile a stock and acts to increase the risk involved in buying for the long term; speaking of which, this seems to be the proposed investment strategy for legal cannabis investors who aren't of the day-trading stripe. Personally, this strategy makes little sense: it mixes momentum investment with long-term investment, which is not only fiscally confused, but also overly simplistic.

Management compensation increased while the company was loss-making, which does not seem a wise leadership style. Additionally, if you want to invest like those in the know, take a look at the inside buying data for this stock: shares have been sold in considerably higher volumes than they were bought in the last 12 months, with inside selling reaching particularly high levels during the last three months.

Let's get the munchies for data

Using a custom-built stock-screener I developed during the summer, I fed Canopy Growth's figures through a three-factor weighting system that takes value, quality, and momentum into account to give a

quick, rounded, in-depth reading.

In terms of value, Canopy Growth really didn't do very well: a negative P/E meant that value per earnings was going to be a difficult multiple by which to ascertain a read, so I used a P/B of 10.9 times book instead. A lack of dividends wasn't a surprise in a pot stock, though it did, of course, mean that the value weighting was dragged down by a third in this particular method of analysis.

Quality-wise, I took into account a negative past-year ROE and EPS, while an 80.8% expected annual growth in earnings had to be taken at face value, (though knowing [a few details](#) about the complexities behind the new legal pot industry did rather make me doubt that figure).

Regarding momentum, Canopy Growth shed 5.55% in the last five days, while its beta of 2.7 indicated high volatility, and its share price was overvalued by more than 16 times its future cash flow value. Taken together with the value and quality assessments, I calculated a total reading of 40%, roughly correlating with a moderate sell signal; this is at odds with analysts' current moderate to strong buy signals.

The bottom line

Current advice regarding Canopy Growth ranges from tentative buy signals pointing out "value opportunities" (which is fairly odd, considering its [massive overvaluation](#)) to stubbornly bullish hold signals. But this stock is not of high enough quality to hold, according to the above data, and given that aforementioned high overvaluation, I would say that this stock is one to sell at the moment.

CATEGORY

1. Investing
2. Stocks for Beginners

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