



## Warning: Canopy Growth Corp (TSX:WEED) Stock Still Has Big Downside

### Description

The process of a bursting [bubble](#) is a long process.

If we look back at the dot-com bubble that burst in the early 2000s, we can see an example of just how long this process takes. As an example, I will look at **Celestica** ([TSX:CLS](#))([NYSE:CLS](#)), which was a stock market darling back then.

The industry was at its infancy, and a bubble formed amid the [highest of high expectations](#) and the rosiest of outlooks.

Celestica stock peaked at over \$128 in 2000, only to continue to drop in what seemed to be a never-ending downfall. It took three years for the stock to settle in the \$25 range, and it is now trading at less than \$13.

That's just one example. There are many others like this as well as many others that didn't even make it out alive.

Even **Microsoft** ([NASDAQ:MSFT](#)), which peaked at \$58 in 2000 before it crashed, traded at less than half of that for the following 10 years at least.

So, it seems to me that if this is a bubble bursting, then it would be very premature to talk about buying marijuana stocks now on weakness.

We need to wait for the dust to settle, and we need to wait for capitulation.

Marijuana stocks are trading pretty much flat today after a brutal couple of weeks that have seen **Canopy Growth's** ([TSX:WEED](#))(NYSE:CGC) stock price fall 30%, **Aurora Cannabis's** stock price fall 28.5%, and **Aphria's** stock price fall 17%.

These stocks have gone back to the levels they were trading at in August 2018. Nothing much has changed since then in terms of the fundamentals.

Canopy Growth is still the leader in the industry, with its vote of confidence and financial injection from **Constellation Brands** really putting it in a favourable position.

With 12 facilities, supply agreements with all provinces, and the Constellation deal backing them, this stock represents the lower-risk option of the marijuana stocks.

A bubble doesn't burst in a day, or a week, or even a month, though. It takes time.

The marijuana industry is still an industry that is essentially at its infancy, so we must bear in mind that market conditions and companies involved in it are all subject to heightened risk.

At this point in time, consensus analyst estimates need to be taken with a grain of salt, but for Canopy Growth, estimates are for a loss of \$0.34 in 2019 and EPS of \$0.28 in 2020.

Canopy Growth stock trades at \$51.46.

The company will need to invest dollars into its growth plan, which will eat away at earnings and profitability, and we are already pricing the stock at these levels, which translate into almost 200 times earnings.

There is still too much uncertainty and too much good news baked in to the stock price.

In my view, it has further to fall, and I would continue to stay away from it.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. NASDAQ:MSFT (Microsoft Corporation)
3. NYSE:CLS (Celestica Inc.)
4. TSX:CLS (Celestica Inc.)
5. TSX:WEED (Canopy Growth)

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