Is Canopy Growth Corp (TSX:WEED) Stock a Buy for Your RRSP?

Description

Canadian savers are searching for ways to boost the size of their retirement funds.

One popular strategy involves using a self-directed RRSP to buy high-quality stocks and then sit on them for decades. Historically, the best companies to own have been market leaders with strong track records of revenue and earnings growth. Steadily increasing dividends also tend to be part of the success story.

However, the emergence of the cannabis sector has investors wondering if marijuana stocks deserve to be part of the retirement portfolio mix.

Let's take a look at **Canopy Growth** (TSX:WEED)(NYSE:CGC) to see if it might be an interesting pick for your portfolio.

Canadian market

Canopy Growth made a series of strategic acquisitions before valuations in the marijuana space really took off, and those moves helped establish the company as a leader in the Canadian medical marijuana sector, while setting it up to be a major player in the recently launched recreational marijuana space.

The purchase of Mettrum Health in early 2017 for $430 million was a game-changing event. The deal made Canopy Growth the dominant player in the Canadian medical marijuana market by number of patients and added important production capacity as well as national brands.

Canopy Growth has continued to broaden its reach in the cannabis space. It recently acquired Hiku Brands as a means to tap the growing market for branded goods and accessories as well as secure key retail locations. In addition, Canopy Growth has partnered with **Constellation Brands**. The U.S.-based beer, wine, and spirits company initially took a 9.9% stake in Canopy Growth for $245 million last year, but raised its position to 38% in August with an additional $5 billion investment. The two companies are working together to develop cannabis-infused beverages for the Canadian market.

Overseas

Canada gets significant media attention, but international opportunities are arguably more attractive for Canopy Growth and its peers. Canopy Growth owns a pharmaceutical distributor in Germany and is investing more than $115 million to build new production facilities in Italy, Spain, or Greece. This is in addition to a site that is already under construction in Denmark. Canopy Growth is also a player in Australia and now has a strong foothold in South America with its research facilities in Chile and production operations in Colombia.

As governments in these regions adjust their cannabis regulations, Canopy Growth stands to benefit from growth in the global medical marijuana industry.

Should you buy?

Canopy Growth is currently a market leader in the Canadian marijuana market and is establishing itself to be a major player overseas. As the industry continues to consolidate, the company should emerge as one of the top firms.

The stock can be very volatile, as we have seen in the past month, trading in a range of about $43-74 per share. At the time of writing, the stock is $51.50 per share, which gives the company a market valuation of nearly $12 billion. This is very expensive for a business that isn’t yet profitable and generates annualized revenue of slightly more than $100 million.

That said, if the global medical marijuana industry proves to be as big as some pundits predict, Canopy Growth could very well prove to be a good buy today, but investors must be willing to accept ongoing volatility and the potential for a significant drop in the stock price from the current level.

Fans of the marijuana sector might want to consider a small position in Canopy Growth for a TFSA or a non-registered account. As an RRSP investment, however, I would probably avoid the stock, as these positions are meant to be your retirement safety net.

As with other disruptor industries, there are many ways to potentially profit from the growth of the cannabis market.

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