Is it Time to Buy Canopy Growth Corp (TSX:WEED) Stock?

Description

Cannabis stocks have given back much of the big gains they racked up in recent months, which has investors wondering which marijuana companies might be attractive buys today.

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

Strong medical strategy

Canopy Growth has done a good job of positioning itself to benefit from the wide spectrum of cannabis opportunities emerging in Canada and around the world.

The company's core focus remains on medical marijuana patients and a variety of potential health-focused applications. Canopy Growth has a number of clinical studies under way that could result in valuable patents and product developments.

The company is the Canadian leader in the medical marijuana market with more than 84,000 registered patients. The early move to acquire Mettrum Health was widely viewed as a game-changer for Canopy Growth. The takeover added key national brands, a large patient base, and important production facilities when cannabis company valuations were significantly lower than today.

Recreational market

The launch of the recreational marijuana market in Canada has hit a few speed bumps, primarily connected to supply issues, which will eventually get sorted out. As the market expands, Canopy Growth should be able to capture a significant piece of the cannabis pie. Recreational marijuana sales in Ontario, the largest market, are currently only allowed through the province's online store, but retail locations will get the green light next year, and up to 1,000 sites could be approved.

Canopy Growth plans to be a player in the physical retail segment in Ontario, although the government intends to limit the number of locations a single company can own and marijuana producers could have restrictions placed on their ownership levels.

Canopy Growth recently purchased Hiku Brands, a cannabis accessories company, in a move to tap the expected demand in branded goods as cannabis culture goes mainstream across the country.

Beverages

On the consumables side, Canopy Growth is planning to be a major force in the cannabis-infused beverage market. **Constellation Brands**, a U.S.-based global beer and wine company, owns 38% of Canopy Growth through two investments. The first 9.9% stake was bought for $245 million in the fall of 2017. Constellation Brands increased the ownership of Canopy Growth to 38% with an additional $5 billion investment announced in August.

The two companies are developing products for the Canadian launch of the cannabis-infused drinks market, expected some time in 2019.

International

Canada is a small market compared to the opportunities in Europe and South America. As governments adjust their cannabis regulations, Canopy Growth should benefit. The company already owns a pharmaceutical distribution business in Germany and recently announced plans to spend US$115 million on new production facilities in Spain, Italy, or Greece.

In South America, Canopy Growth has a research and development site in Chile and production facilities in Colombia.

Should you buy?

Canopy Growth should be one of the marijuana companies that survives the expected shakeout. At the time of writing, the stock is down to $42.50 per share compared to $76 in October. Constellation Brands paid $48.60 in August to boost its ownership in the company, so investors who buy now are getting a better deal.

That said, volatility should be expected and the $9.9 billion market capitalization is very high for a company that reported quarterly revenue of less than $25 million in the latest report. If you’re a cannabis bull, it might be worthwhile to start nibbling, but I would keep any position small at this point. We could see more downside before the dust settles on the recent pullback.

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Date
2025/08/06
Date Created
2018/11/22
Author
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