



Why Is Andrew Left Shorting Canopy Growth Corp (TSX:WEED) Stock?

Description

Canopy Growth Corp ([TSX:WEED](#))(NYSE:CGC) is not the most popular stock in the world right now, and one activist investor has joined the chorus against it in a big way.

Andrew Left is a well-known shorter who runs a financial research firm called Citron Research. The firm is known for its contrarian articles on several big stocks, including a [controversial piece](#) on **Shopify Inc**, which generated big press for Left. He's now back in the news with harsh comments on pot stocks like Canopy and **Tilray Inc** (NASDAQ:TRLY).

When Left criticizes a stock, he usually means business, so it's worth investigating his claims against Canopy. We can start with his most significant critique of the company: valuation.

Valuation concerns

Andrew Left has made no bones about his claim that cannabis stocks are overvalued. In a CNBC interview, he said that Tilray's then-\$103 valuation was a "joke," and implied that the company was more like a "stock operation" than a legitimate business. Harsh words indeed. But Left is not totally outside the realm of reason here.

While I disagree with the claim that Tilray is "not a company," the fact is that these cannabis stocks are trading anywhere from 150 to 300 times sales with growing net losses to boot. What these stratospheric valuations are based on is anybody's guess, but it's certainly not earnings.

Low interest from professional investors

Another point Left brings up against Canopy and Tilray is that they lack interest from professional investors. According to Left, institutional ownership in cannabis stocks is very low, which he interprets as meaning that most people owning cannabis shares are non-professionals.

A quick look at Tilray shows that about 9% of its shares are owned by institutions, which is indeed low. I'll hold off on whether this really means that the company's investors are uninformed, but Left is incorrect in saying that institutional interest in pot stocks is very low.

Pessimistic on international reach

Left's final point against cannabis stocks is that their odds of achieving global domination are low. According to Left, Canada's cannabis companies hope that they can dominate in foreign markets, but he doesn't believe that they will. In particular, he believes that U.S. firms will come to dominate the U.S. market as legalization catches on there. He also doubts that Canadian cannabis makers will be shipping pot to Australia any time soon.

On this point, I'm not sure that I agree with Left. His claim about Canadian companies shipping pot to Australia seems to underestimate these companies' ability to build infrastructure abroad. If Canopy, for example, can set up grow sites near Australia's biggest cities, they won't need to ship anything.

At the same time, I do wonder if aggressive international expansion will work out for Canopy in the long run. It's an extremely cost-intensive project, especially for a company selling what may be a ["perfectly competitive"](#) commodity.

CATEGORY

1. Investing
2. Top TSX Stocks

TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. NASDAQ:TLRY (Tilray)
3. NYSE:SHOP (Shopify Inc.)
4. TSX:SHOP (Shopify Inc.)
5. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing
2. Top TSX Stocks

Date

2025/07/05

Date Created

2018/11/23

Author

andrewbutton

default watermark

default watermark