Beware: Canopy Growth Corp. (TSX:WEED) Is Cheaper, but Not Cheap

Description

After reading for the better part of a year about the impending doom facing marijuana stocks, it is easy to see that the bears, at least in the short term, were certainly right. Several of these high fliers have been cut in half or better. At this point, investors need to determine whether it is time to get out altogether, or if this is a good time to get back into or add to the names given their significantly decreased share prices.

But even with the massive losses these companies have experienced, the fact remains that cannabis producers are still hugely overpriced. It all comes down to a few factors that any investors spending a little bit of effort doing some fundamental analysis can ascertain.

One major the factor to consider is that most of these companies still have very little in the way of earnings. Take **Canopy Growth Corp.** (TSX:WEED)(NYSE:CGC), for example, arguably one of the stronger companies of the group. While revenue is increasing quickly with a 33% increase year-over-year in the latest quarter, the company is still not making any money. Its earnings were still negative in the latest quarter.

Now Canopy does have a lot of cash on its balance sheet, around 429 million as of the latest earnings report. A large amount of cash comes from its best-selling product, the company's shares. From a business perspective, this is a stroke of genius. Canopy uses its high-valuation shares to get more cash to fund acquisitions and growth initiatives, such as October's purchase of TS Brandco Holdings Inc., a Manitoba based retail business.

In this sense, management has been very wise with its resources. Getting cash from its expensive shares at this point is a good way to get capital. From a shareholder's point of view, this is a bit disheartening. If you purchased shares early on, you will get a smaller percentage of earnings, as the share base is diluted. Your shares represent a smaller piece of the company as more shares are issued over time.

But if you do want to take a stab at this still highly-valued company, Canopy might be a better choice than several of its peers. It does have a number of brands that appear to be well recognized, such as Tweed recreational and Spectrum medical cannabis products. Thanks to its huge cash supply, Canopy continues to expand its offerings and reach through strategic acquisitions.

While it would be difficult to make the argument that Canopy is good value at these prices, it does have a market-leading reputation at the moment and is developing its brand portfolio. It also uses its resources, including its high-priced shares, effectively, executing its business strategy well. In the future, this company does have the potential to be a market leader in the space.

That said, it is difficult to recommend buying the stock. No matter how well management does strategically, this company is far too overpriced at the moment for value-focused investors. It is cheaper than it was, but it is not cheap. Don’t confuse the two concepts. Even at these lower prices, the stock remains expensive. The share dilution, while smart from a business perspective, is not exactly encouraging for investors.

If you decided to invest in this company, see it for what it is. You are speculating on the future of an expensive company operating in a new and unpredictable industry. Go in with your eyes wide open.

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