



## Investors: Don't Buy Canopy Growth Corp (TSX:WEED) Until This Happens

### Description

It's easy to see why investors are excited about **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) and the marijuana space in general.

The company projects the medical marijuana industry alone in Canada is worth \$3 billion a year, with the recreational market worth between \$5 and \$9 billion annually. Now that cannabis is legal, there's also ample opportunity to enter ancillary markets like cannabis-infused drinks, edibles, animal health, and sleep aids in the future.

But at the same time, critics say all this potential is easily priced into Canopy's stock price. As I type this, Canopy's share price is just under \$42, which translates into a market cap of \$14.2 billion. It has this valuation, despite selling just \$93.7 million worth of product over the last year.

Now Canopy is expanding around the world. It currently has operations in nations like Germany, Brazil, and Australia, and plans expansions into other markets like South Africa and Colombia. And although most of these nations don't use cannabis as much as we do in Canada on a per capita basis, there are still a lot of people around the world who do consume it. And investors have to like that Canopy is taking steps to seize opportunities around the world.

Still, I'm a firm believer that Canopy — and its peers — simply can't justify their sky-high valuations unless they have a clear path to the largest cannabis market in the world. The United States is the real prize here. Even a small portion of the U.S. market could be a massive win for Canopy and other pot stocks.

### Can Canopy expand in the U.S.?

Unfortunately, as we've seen in Canada, legalizing marijuana isn't a simple process. We're now close to two months into legalization here and retail stores are still dealing with a [plethora of shortages](#) and other issues. Many consumers are just continuing to use their dealers as if nothing has changed.

And this is in Canada, which is a much smaller economy than the United States.

Investors must remember that marijuana is already legal in ten states as well as the District of Colombia. It's also legal for medical use in 33 states. A large network of growers has already popped up in the United States, companies run by entrepreneurs who would relish the opportunity to supply the rest of the country. It's not going to be easy for Canopy to become a big player in this market.

Finally, although polls indicate a majority of U.S. adults would like to see marijuana legalized across the country, there's virtually zero chance of it happening until a Democrat takes over the White House. And many speculate a Democrat president would have greater priorities than legalization, which has staunch opposition from a vocal minority.

In short, it's going to be extremely tough for Canopy to crack the U.S. market. But without that potential win, it's going to be difficult for the company to justify its massive valuation today.

## The bottom line

If Canopy was a \$1 billion or even a \$5 billion company today, I'd be much more comfortable investing in the stock. But it's not. At its peak, Canopy's market cap was just over \$26 billion. Today, shares are worth \$14 billion.

That's still too much, at least in this analyst's opinion. For Canopy to justify its valuation, it must get a major win like potential expansion into the U.S. That should be enough to send shares much higher. But even then, cracking the U.S. market is going to be a tough journey.

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