



Should Canopy Growth Corp (TSX:WEED) Be a Top Stock Pick for 2019?

Description

Heading into the new year, we are coming off the bursting of the [marijuana](#) bubble.

With this, a big risk in the space is subsiding, improving the [risk/reward trade-off](#), as valuations make their way back to more realistic levels. And although they are still far off, they are at least closer.

We must re-evaluate the space, so we are ready to add the right marijuana stocks to our portfolios when the time is right.

In this article, I will be performing a basic SWOT analysis of **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC), one of the leading marijuana stocks and a stock that is trading 40% lower than summer highs and 36% higher year to date.

Strengths

Canopy has one of the most extensive global presences, with operations in 12 countries across five continents.

With 10 licensed cannabis production sites and over 4.3 million square feet of production capacity, Canopy is the largest marijuana producer that also has an unmatched portfolio of partners — partners such as **Constellation Brands**, which currently has a 38% stake in Canopy.

Weaknesses

The weaknesses with Canopy lie in its actual results, dilution, and the effect of spending on earnings.

As an illustration of this, second-quarter revenue increased a disappointing 33% in the quarter, and the company's net loss of \$1.52 was significantly worse than expectations amid significantly higher expenses in order to fund growth plans and a lower-than-expected selling price.

Digging a little deeper, we can see that operating expenses increased at a far faster pace than the

revenue increase. Total operating costs rose 225% to \$72 million.

Also, there was big dilution of current shareholders, as shares outstanding increased 22% to 200 million.

This is all typical of growth companies, but the point here is that investors must keep these realities in mind before bidding these stock prices up so much that they become highly valued in a way that ignores these risks and realities.

Opportunities

The opportunities are bright for Canopy, as this company has an enviable position in the marijuana industry.

The U.S. is drifting closer and closer to legalization, edibles are expected to be legal next year, and Canopy continues to be well positioned globally to take advantage of these growth opportunities.

The company continues to seek partnerships with leading sector participants.

Threats

Marijuana shortages, production issues, pricing, and low barriers to entry are all threats.

Clearly, this industry has a lot of growth potential, with estimates that the market size will be in the tens of billions of dollars.

But being an industry that is essentially at its infancy, we must bear in mind that market conditions and companies involved in it are all subject to heightened risk.

Final Thoughts

Canopy stock will likely remain volatile, and although valuations are lower, they are still high.

For investors that would like to invest in a marijuana stock, Canopy Growth Corp is one to keep your eye on, but I would remain patient and keep any allocations to these stocks small.

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