



Is Canopy Growth Corp. (TSX:WEED) Stock a Strong Buy Heading Into 2019?

Description

The pullback in the broader marijuana sector has taken the share prices of leading [cannabis stocks](#) down to some of the lowest levels in 2018.

Let's take a look at **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) to see if it deserves to be in your portfolio for 2019.

Moving goal posts

CEOs of Canadian cannabis stocks have a lot of moving targets to deal with in both the domestic and international markets. Relying on governments to deliver on their guidelines is proving tricky, especially when making decisions on where to build new production facilities or trying to decide which market segments might offer the best returns.

For example, Ontario has consistently changed its projections for the number of licensed brick-and-mortar cannabis stores that will be allowed to open in 2019. The previous liberal government had targeted 40 stores at the opening with a plan to ramp up to 150. The new progressive conservative government initially indicated there would be no restriction and even pondered the possibility that Ontario could see 1000 outlets. Those ambitions recently change dramatically. The province will now offer just 25 initial licences through a lottery.

Smokers are just one part of the big cannabis pie and Canopy Growth and its [peers](#) have their eyes on a broad range marijuana opportunities. Cannabis-infused drinks are expected to be a big hit once they become legal in Canada. Canopy Growth was the first big marijuana producer to partner with a leading beer company, and that head start could give it an early advantage when sales are permitted. Canopy Growth is currently 38% owned by **Constellation Brands**, the maker of Corona.

Legal sales of marijuana edibles and drinks are expected to get the green light in 2019, but we will have to see when that actually happens.

International

Canopy Growth sees huge opportunities in large markets such as Europe and Latin America, where governments are going through the process of modifying their regulations on the sale of medical marijuana. Canopy Growth already owns a pharmaceutical distribution business in Germany and has new production facilities planned in different European countries.

In South America, Canopy Growth has research and development sites in Chile and production operations in Colombia. These will serve as the hubs to supply product to the region.

Assuming the global market rolls out as anticipated, Canopy Growth should be in a solid position to capitalize on the opportunities.

Risks

The stock is down to \$36 per share from a closing high above \$73 at one point in October. However, it still trades 50% above the low it hit in February, and remains expensive based on the current revenue stream.

Supply shortages have hurt the launch of the legal recreational market in Canada and that could put a damper on enthusiasm for consumers who were willing to buy legal recreational weed. At some point, the producers will catch up and the market will get itself organized, but that might take longer than initially expected.

Another risk in 2019 is the federal election. Another big Liberal win would likely provide ongoing support for cannabis stocks, but any indication in the months and weeks leading up to the election that shows the Liberals could lose their majority, or even the election, would potentially trigger a sell-off in pot stocks.

Should you buy?

Investors who are bullish on the long-term prospects for the global marijuana industry might want to start nibbling on Canopy Growth on further weakness. Constellation Brands was willing to pay \$48.60 per share when it spent \$5 billion to increase its stake in the company in August. Other leading beer and tobacco companies are joining the cannabis party, so there is obviously some optimism about the big-picture potential.

That said, ongoing volatility should be expected and I wouldn't be surprised to see Canopy Growth retest the 2018 low before finding support. If you want to buy the stock for your 2019 portfolio, I would keep the bet small at this point.

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Date

2025/08/05

Date Created

2018/12/24

Author

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