

Will Canopy Growth Corp (TSX:WEED) Soar to New Highs in 2019?

Description

The year 2018 was a mostly positive year for **Canopy Growth Corp** ([TSX:WEED](#))(NYSE:CGC).

Perhaps the two biggest stories surrounding Canopy last year were its multinational expansion and the \$5 billion investment it got from **Constellation Brands**. The international business expanded to encompass 10 different nations — including Australia and Germany — and the Constellation investment gave it the capital needed to expand. Canopy also became a big player in selling marijuana to consumers through stores in three provinces and online sales in four.

The company also signed a plethora of different supply agreements for some 70,000 kilograms of marijuana annually. Its various brands command about a 30% market share today.

Despite this, Canopy's stock disappointed investors somewhat by the end of 2018. After shares peaked at more than \$75 each on the eve of the official legalization date, they spent the last quarter of 2018 spiraling lower. By the end of the year Canopy's stock had lost half its value versus those recent highs.

2019 is off to a great start already, with Canopy shares up 36% in the few trading days since January 1. Can the stock maintain that performance throughout the year? Let's take a closer look.

The bull case

2018 was the year of potential. Everyone was excited about legal pot and the sector's largest stocks were bid up accordingly. Now investors are a little more skeptical of the space, so producers must show that they can keep up with demand.

This may be easier said than done. Various analysts are predicting various product shortages that plagued the industry immediately after legalization will continue for the next little while, with some of the more pessimistic analysts saying it'll be years until supply catches up with demand.

Canopy has the strategic agreements in place. It has done a nice job introducing its branding and cementing itself at the top of the sector. Now it needs to execute. It needs to deliver as much product as possible to drive the top line, which will in turn get investors excited again.

To be fair, Canopy has already grown its top line significantly. In its most recent quarter, it grew sales to \$23.3 million versus \$17.6 million last year, and this was for the quarter ending before the drug officially became legalized.

Analysts expect sales to surge to \$255 million in the current fiscal year ending in March, 2019. Fiscal 2020 is expected to be all the better, with sales projected to exceed \$780 million. But profits may not come; these same analysts project a loss in fiscal 2019 and only a small profit in 2020.

Still, there's plenty there to get excited about, and by 2020 the company's efforts in other countries will likely add significantly to the top line.

The long-term prize

Canopy Growth has its eye on the United States marijuana market.

The drug remains illegal on the federal level, but many pundits predict it's only a matter of time before the nation makes it fully legal. President Trump recently signed a law that makes hemp legal, and even staunchly Republican states are legalizing medical marijuana.

It's obvious the United States is a big potential prize, and even if Canopy can capture a portion of it that'll be a major win.

Critics say Canopy's valuation is so high it just can't be justified with pot sales to Canadians alone. It must become a global powerhouse to keep marching upwards. And with a Republican President in the White House, it's unlikely marijuana will be legalized at the federal value until at least 2021, and perhaps even longer. Because of this it's possible Canopy's stock takes a bit of a breather in 2019 before heading higher in 2020.

The bottom line

Canopy Growth Corp needs to execute for shares to surge higher in 2019, especially after the move we've seen so far this year. The company needs to show investors it's about more than just hype. Management has done a good job setting the table for success, now the market wants to see results. Additional legalization chatter in the United States would also help.

Ultimately, I think the company can deliver on its potential and make investors happy in 2019. But be warned; if it disappoints the market, the opposite could very well happen. One thing is for sure. This stock isn't for the faint of heart.

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