Is $1 Billion in Sales in the Cards for Canopy Growth Corp (TSX:WEED)?

Description

Early in 2019, two of my Foolish colleagues have already asked whether **Canopy Growth** (TSX:WEED)(NYSE:CGC) stock can hit $70 and $100 by the end of 2019.

Even with the stock's 32% gain over the past five days, it's still 40% away from $70 and 100% from $100. Given the volatility of WEED, it could just as quickly decline 32% over the next five days, making it impossible to predict.

What we do know is that incoming **Constellation Brands** (NYSE:STZ) CEO Bill Newlands believes that Canopy Growth can reach its target of $1 billion revenue run rate within 18 months.

Here's what he said in Constellation's Q3 2018 conference call:

"Canopy continues to focus on intellectual property development across medical and recreational opportunities while also preparing and creating brands and products for new, legal recreational cannabis markets across various product formats that will be sold through new and existing channels."

"It is these initiatives that give me confidence that Canopy can and will achieve their CAD 1 billion revenue run rate target within the next 18 months."

Now that's something to work a valuation around.

How many times sales?

Canopy had $49.2 million in revenue through the first two quarters of fiscal 2019, which was 47% higher than a year earlier. Annualize those sales and you get a run rate of $98 million.

At a current market cap of $16.9 billion, Canopy is trading at 172 times sales, a ridiculous amount, but not unheard of for growth companies in burgeoning industries.

To get to $1 billion in 18 months from where it currently sits, it needs to grow sales 52% a quarter for the next seven quarters.

Given that edibles and cannabis-infused drinks become legal in Canada in October, I think it's entirely realistic for Canopy and Newlands to believe in its $1 billion target.

Who knows? It might even turn out to be a conservative prediction.

So, back to the valuation question and the P/S ratio.

Let’s assume that Canopy grows revenues by 52% a quarter for the next seven quarters. At 52 times revenue, Canopy would have a valuation of $93.6 billion. That’s an upside of 454% over just 18 months.

Is 52 times sales in 18 months a valid multiple?

It might be if it can also generate profits from the $1.8 billion, but that’s unlikely, so let’s cut the P/S ratio in half to 26 times, which gives us a market cap of $46.8 billion — a very attractive 177% upside over 18 months.

The current share price should be….?

Let’s assume that Canopy does hit $1.8 billion in sales in June 2020 with a market cap of $46.8 billion.

Shouldn’t the company’s market cap be higher than $16.9 billion today? Using a 10% discount to determine the present value, which is pretty high, today’s market cap would be $40.2 billion.

However, this assumes that the $1.8 billion in revenue is in the bag. It also assumes that investors aren’t going to penalize the stock for not making money on those sales. That’s an assumption we shouldn’t make.

In my estimation, the intrinsic value of Canopy stock today is somewhere between $40 billion and $16.9 billion.

With approximately 339.8 million shares outstanding, a $70 share price translates to a $23.8 billion market cap; a $100 share price translates to a $34.0 billion market cap.

If I were to guess, Canopy’s true value today would be between $80 and $85 per share.

But the real question remains: Will Canopy Growth reach $1.8 billion in revenue within 18 months? I believe it will.

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