



Has Canopy Growth Corp (TSX:WEED) Peaked?

Description

Canopy Growth ([TSX:WEED](#))(NYSE:CGC) struggled late in 2018, as its shares went into a tailspin to close out the year. And although it has recovered in the new year, there are signs that the rally may be over already. Year to date, Canopy Growth is up more than 65%, but those gains came in January; since the start of February, the stock has declined by 4%.

Has Canopy Growth run out of room to rise?

There's no denying that Canopy Growth is the top pot stock on the TSX but whether it's the best investment today is a completely different question. With its market cap as high as \$21 billion, the company already has a [very high valuation](#). It's going to be a lot more challenging for a stock like Canopy Growth to see a big increase in price than it will for a lower-cap stock that hasn't seen the same excitement.

I always think of how likely it is for a stock to rise by 10%, 20%, or more. And in Canopy Growth's case, I can still see that happening, but it'll likely take a big development for it to do so. Although the stock climbed mightily in January, all that did was make up for the big decline the stock went on in the latter half of 2018.

The stock today is priced right around where it was back in October before pot stocks fell off a cliff. And while the share price is again showing strong support at the \$60 mark, it's also showing some resistance at around \$64.

Investors don't look ready to value this company more than where it's at today. Although the stock is trading at just three times book value, the big number is the price-to-sales ratio, which currently sits at just below 140. Given the struggles the market has had recently, perhaps it's no surprise that investors are a bit more hesitant to pay even more for the stock.

Why sales growth might not just be enough anymore

Even with the terrific sales growth the company achieved in its [most recent quarter](#), investors have come to expect that from the industry now that recreational marijuana has been legalized. For Canopy Growth to attract investors beyond those that just care about sales, the company's bottom line will likely need to improve. With concerns that the economy might be starting to slow down, investors are going to be a bit more fearful and careful with which companies they choose to invest in.

And that means profitability won't take a back seat for much longer, which could be a big problem for Canopy Growth. The company has been able to record a positive net income figure in two of the past five quarters, but it has also posted an operating loss in each of those reporting periods. Costs have been soaring for the stock, and until it can get those under control, it'll keep many investors at bay.

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1. Cannabis Stocks
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1. Cannabis
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