At What Price Is Canopy Growth (TSX:WEED) Stock Worth Buying?

Description

Lately, it's been quiet on the **Canopy Growth Corp** (TSX:WEED)(NYSE:CGC) front. The marijuana stock that previously had a beta coefficient higher than 4, has been stable around $60 for weeks. So far this year, the stock has risen about 54%, but the majority of those gains were locked in by January 30. Since then, the stock has been trading in a $6 price range and holding steady.

The fact that Canopy is now fairly flat may indicate that speculators have lost interest in the stock, and that most people holding it are in for the long term. If that's the case, the usual price and value calculations now apply to Canopy–which in the past was a pure momentum play.

To gauge what price Canopy is worth today, we need to look at how the company is doing relative to its fundamentals.

Valuation

Canopy has historically been a pretty expensive stock, trading at up to 200 times sales. For the recent 12-month period, Canopy traded at 136 times sales, which is still very high. For the same period, earnings were negative. It is possible to calculate a "P/E ratio" for the most recent quarter: using the basic EPS figure ($0.22), it's about 272. However, P/E ratios are usually calculated with 12-month data or forward projections, so this isn't a conventional approach.

The big takeaway is that Canopy is very expensive relative to sales and earnings. However, this may not make the stock overvalued if we take growth into consideration as well.

Growth

As you might know, a high P/E ratio does not necessarily mean a stock is overvalued. If growth is high, a P/E ratio may be high (and justified) as well. A great example of this would be **Amazon.com**, whose P/E ratio has historically hovered over 100 without harming the stock's return at all.

Currently, Canopy is growing even faster than Amazon at its peak, with sales up 280% and profits up 4000% year over year. That kind of growth can make a pretty high P/E ratio look insignificant in comparison. At the same time, Canopy's recent positive earnings were because of fair value changes rather than operations; the company's operating income was still $-78 million. This calls into question whether we're really seeing an increasingly profitable company here, or one that got lucky one quarter.

Analyst targets

A final factor to take into account when evaluating a fair stock price is analyst targets. The world's largest banks and mutual funds rely on analyst ratings to guide their investing decisions, so these figures are considered reliable.

According to the *Wall Street Journal*, the median analyst target price for Canopy is $72, while the highest is $100 and the lowest is $15. Going off the median, Canopy still has plenty of room to grow before it hits a price analysts consider fair. In light of that, now seems like a good time to buy Canopy shares. But it's important to remember that this is a very volatile stock that has often behaved in ways that analysts didn't expect.

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andrewbutton