



No Profit in Sight for Canopy Growth Corp. (TSX:WEED)

Description

When is the profit coming? This question is directed to cannabis producers who promised investors a rose garden. The silver lining is a growth of about U.S\$16.9 billion. Even **Canopy Growth Corp.** ([TSX:WEED](#))(NYSE:CGC), [the most well-known cannabis brand](#), couldn't provide a definitive answer.

The legal cannabis market, particularly recreational pot sales, is expected to turn in enormous revenues. But up to now there is uncertainty in profitability. Just like chief rival Aurora Cannabis ([TSX:ACB](#))(NYSE:ACB), the presumed largest producer, Canopy Growth is losing big time instead of earning.

Recap of 2018 milestones

Constellation Brands ([NYSE:STZ](#)) infused U.S\$4.1 billion in the cannabis behemoth — a significant milestone. The move of the Corona beer maker bolsters the confidence that Canopy Growth has long-term growth potential. The money would be used to expand capacity and infiltrate new markets.

The company acquired Hiku Brands for \$269 million for the purpose of adding another well-known brand to the company's product portfolio. Canopy defended the purchase, claiming that it was necessary, although they lost headway as profits will not be realized anytime soon.

Canopy Growth believes that establishing [a footprint in the U.S. is vital](#). Hence, the \$425 million acquisition of Colorado-based research company Ebbu followed. The company is anticipating the federal government would soon legalize weed. It's better to develop relationships in the U.S. market before that happens.

Waiting game

Canopy Growth will eventually realize a recurring profit from the major actions taken in 2018. But anxious shareholders might have to wait longer by maybe two to three years. Until then, the waiting game will persist. Early investors admit investing too soon. Some contend that the entry point should

be cheaper than the current price of \$56.73.

The erratic trading volume might indicate that investors are avoiding the cannabis space for now. It began as a crazy gold rush, and then turned into a scramble for the exits. Obviously, the marijuana industry is having problems with valuations. The very low profit margin is also a deal breaker.

Many analysts couldn't even go around the valuation or justify it. To them, valuations in the cannabis space are astronomical. Maybe people are waiting for the U.S. to finally legalize the sector so serious valuation can begin. By then, industry followers might be able to assess future margins and determine earnings.

Canopy Growth will definitely lead the cannabis industry because of its size and scale, but that's for the long run. Since earnings are purely speculative, as it's still a risky investment today. Maintaining the current price level is doubtful, as CGC dropped again by 3.87% from the previous close.

Investors can't help it but be reminded of the dot.com bubble in 1999. There are indeed striking similarities. Many lost hard-earned money from stocks that are total craps shoots. Down the road, consolidation in the industry is not far-fetched. Canopy Growth will be one of the fewer names that will remain.

Bottom line

Canopy Growth is the real thing, but when? The best advice, for now, is to wait for the company to show strength before you invest.

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