This Pot Stock Is Now Canada's Most Popular Company

Description

Cannabis stocks have been going gangbusters for nearly a year. In many cases, small, unknown companies have been catapulted into the spotlight, minting thousands of millionaires in as little as a few weeks.

In 2015, shares of **Canopy Growth** (TSX:WEED)(NYSE:CGC) were under $2 apiece. This week, the stock closed above $55 per share.

That meteoric rise has made Canopy one of the most popular stocks in all of Canada. Lately, more than $30 million worth of Canopy shares have been traded every day, roughly 50% more than the next most popular stock, **Toronto-Dominion Bank**.

Is there still time to profit from this surge in popularity? Shares look expensive, but you'll want to pay close attention for a few reasons.

Yes, this stock is expensive

After the recent cannabis boom, most pot stocks appear incredibly expensive using traditional valuation tools. Some cannabis growers are trading at more than 100 times sales. If growth projections become a reality, however, many of these "pricey" stocks could end up being a steal.

Aphria (TSX:APHA)(NYSE:APHA) is a prime example. With a $3.3 billion market cap and only $37 million in sales last year, the stock looks wildly overvalued at nearly 100 times sales. However, forward-looking investors know that times are changing quickly.

Last quarter, Aphria generated $74 million in sales. That's a run rate of nearly $300 million, pegging shares are just 10 times sales. The company has plans to ultimately reach $1 billion in sales. If that goal is achieved, you'll wish you'd bought shares today.

Canopy is no different.

With a market cap of $18.7 billion, Canopy is clearly the behemoth of the cannabis sector. That valuation looks risky considering the company only earned $78 million in revenues last year. Looking ahead, the picture changes dramatically.

Last quarter, the company generated $83 million in sales, a run rate of around $330 million. Next year, many analysts expect the company to bring in sales of more than $800 million. The stock would still appear pricey if growth didn't continue, but clearly more traditional valuation metrics don't fully represent the potential of high-growth cannabis companies.

Is now the time to buy?

Pot investors are currently stuck between a rock and a hard place. The cannabis industry is currently experiencing exponential growth. As with all exponential trends, the market size in a few years will be several times what it is today. In five years, many of these pot stocks may have been screaming buys.

There's a dark side to exponential trends, however.

Canopy, a company that no one had even heard of a few years ago, is now the most popular stock in all of Canada. Established companies with multi-decade histories, like **Royal Bank of Canada** or **Canadian Natural Resources**, are being left in the dust. While there's plenty of growth to come for cannabis stocks, the industry is clearly in a classic hype cycle.

Sure, current valuations may be a steal a few years down the line, but as with any high-growth stock, volatility will be the norm. It wouldn't be a surprise if Canopy shares were trading 50% lower in a few weeks. It also wouldn't be a surprise if shares were considerably higher.

If you're bullish on the pot sector, this is a perfect use-case for dollar-cost averaging. Timing the market can be incredibly difficult for pricey stocks. By buying a regular amount every other week or once a month, you'll ensure that you always have the capital to increase your position at attractive prices.

Cannabis stocks will continue to be a wild ride, but if you believe in the long-term potential and employ dollar-cost averaging, this volatility can be used to your advantage.

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Date
2025/08/25
Date Created
2019/04/15
Author
rvanzo