Canopy Growth (TSX:WEED) Is Joining the S&P/TSX 60 Index: Time to Buy?

Description

It's shaping up to be another big year for **Canopy Growth** (TSX:WEED)(NYSE:CGC). After getting off to a great start in early 2019, the company continued its expansion, acquiring Spanish producer Cafina and pursuing a licence to sell pot in New York State. As a result of its rapid growth, Canopy is set to become the first weed stock on the S&P/TSX 60 — an index that tracks the 60 biggest companies on the Toronto Stock Exchange.

Joining the ranks of Canada's largest publicly traded companies is a big deal for a young startup like Canopy, which is up 2,074% since its debut. But does this milestone actually make Canopy a good buy? First, let's take a look at what the S&P/TSX 60 is, and how it measures up compared to the TSX as a whole.

What is the S&P/TSX 60?

As previously mentioned, the S&P/TSX 60 is a TSX sub-index that tracks the 60 largest Canadian companies. In this respect, it's somewhat similar to the Dow Jones Industrial Average. Like the Dow, all of the TSX 60 components are part of a larger index. Also like the Dow, membership in the TSX 60 is set by size, not by sector (like certain other sub-indexes). The fact that Canopy has joined the TSX 60 is proof that it's getting big. As for whether it means the company will get even bigger, that's a slightly harder question to answer.

Returns vs. the S&P/TSX Composite Index

Over the long term, the S&P/TSX 60 outperforms the S&P/TSX Composite Index by a slight margin. Over five years, the TSX 60 is up 16% to the TSX's 12%; over one year, the TSX 60 is up 9% to the TSX's 7%. This isn't massive outperformance, but it's significant enough to make a difference.

That being said, it's not clear that being in the top 60 guarantees a stock will outperform. Again, the TSX 60's superior performance is only by a tiny margin; additionally, you can pick timeframes where the TSX 60 actually underperforms the TSX. And there are plenty of TSX 60 stocks that have performed poorly this year, **SNC-Lavalin** being the most obvious example.

Foolish takeaway

Cannabis stocks got off to a great start in 2019, after encouraging quarterly reports for the final quarter of 2018. However, sentiment is not necessarily rosy. **Scotiabank** is predicting that Canopy is headed for large earnings misses, while other cannabis producers have posted disappointing results this year.

While being listed on the TSX 60 is a huge milestone for Canopy, it doesn't make the stock a buy. I wouldn't say Canopy is a sell right now, but I'd like to see a move toward consistent operating profits and free cash flow before buying it. It's also worth noting that Canopy is a highly volatile stock, so even if the long-term trend remains positive, it may be a bad idea for jittery investors who panic sell in downturns.

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. Cannabis
2. Editor's Choice

TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Cannabis Stocks
2. Investing

Tags

1. Cannabis
2. Editor's Choice

Date
2025/07/06
Date Created
2019/04/18

Author
andrewbutton