



Should You Buy Canopy Growth Corp (TSX:WEED) After its Big U.S. Bet?

Description

Canopy Growth ([TSX:WEED](#))(NYSE:CGC) has historically been very cautious when it comes to its investment in cannabis south of the border. This cautiousness was vindicated when companies like **Aphria** faced the possibility of de-listing on the TSX due to its cannabis investment in the U.S., where the substance is still under a federal ban. Many voices in the U.S. are now calling for federal legalization, and old opponents of cannabis are starting to tip the scales.

John Boehner, who served as the Speaker of the U.S. House of Representatives from 2011 to 2015, is one of those voices. The now-retired GOP politician voted to prohibit medical cannabis in Washington, D.C. in 2011. He wrote a constituent saying that he was “unalterably opposed to the legalization of marijuana.” Boehner has since become a vocal proponent of cannabis legalization in the United States.

In April 2018, Boehner joined the board of Acreage Holdings, a New York-based cannabis company. Boehner claims his position has evolved, and he is not alone. In an October 2018 Pew Research survey, 62% of Americans said that cannabis should be legalized. Back in 2010, only 41% were in support. However, only 45% of Republicans still support legalization.

Last week, Canopy Growth announced that it had agreed to purchase Acreage Holdings for \$3.4 billion. However, the acquisition will only be completed “at such a time as cannabis production and sale becomes federally legal in the United States.” Acreage is a strong advocate of the STATES Act, which pushes for federal legalization. However, many GOP leaders, including Senate Majority Leader Mitch McConnell, say they are still opposed to federal legalization. Canopy Growth will pay Acreage \$300 million up front and the nature of the partnership at this stage is unclear.

The deal secures a potential U.S. footprint in Canopy Growth, as investors and advocates for cannabis legalization anxiously await movement south of the border. Expect some fireworks in the 2020 election, as several Democratic candidates, including front-runner Bernie Sanders, support an end to the federal ban. If and when the U.S. moves for federal legalization, the cannabis market is projected to quickly balloon into the largest in the world.

Canopy Growth has put itself in a position to step into a major role quickly down the line, but the

mysterious nature of this deal makes it hard to evaluate. Still, it makes Canopy Growth an attractive hold into the next decade. How are its [prospects](#) looking for the rest of 2019?

Last week, I'd discussed some of the [headwinds facing the sector](#) in the spring. Canopy Growth is set to release its next batch of earnings in June. Analysts expect the slowdown in sales to start 2019 to have a negative impact on profits. The revenue forecast has been trimmed for Canopy Growth, which should keep investors cautious in late April.

Canopy Growth stock is still trading at the high end of its 52-week range. Shares have soared 98% from the prior year. The stock had an RSI of 55 as of close on April 18, which puts it in neutral territory. I like this long-term move from Canopy Growth, but the stock is a risky bet as the cannabis sector faces turbulence in this earnings season.

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