Will Canopy Growth Corp (TSX:WEED) Hit $100 This Year?

Description

Canopy Growth (TSX:WEED)(NYSE:CGC) has been on the rise again. Last week, the stock closed at over $67 — the last time it did that was back in late January. The last time the share price closed at over $70 was back in October, right around legalization and before pot stocks took a big hit.

Now, with news of Canopy Growth having a deal in place for a big U.S. company, and with it looking to expand its operations south of the border, investors are feeling very bullish about the stock once more. The big question for me is whether there's enough excitement surrounding the stock to push it to the $100 mark.

Let's take a look at why it might happen as well as why it might not.

How Canopy Growth could reach $100

By no means am I going to say that Canopy Growth is a cheap stock. Currently, it trades at around 150 times its sales, and investors have proven they are willing to pay big premiums for the top pot stock in the industry. However, that's actually a lower multiple than what other stocks in the industry are trading at. If Canopy Growth is simply able to generate more hype around it and trade at a multiple of more than 220 times its sales, that would mean the stock would be trading at $100 per share.

That would require a lot of speculators to bid up the stock, and given how volatile marijuana stocks have been lately, it's not something I would expect on happening any time soon. However, with the company releasing its quarterly earnings soon, we're likely to see another big boost in sales in what will be Canopy Growth's first full quarter of the recreational pot market being open for business.

Even if the company simply matches last quarter's performance with $83 million in revenue, that will be a $60 million increase from the prior year and put its trailing 12 months sales at $215 million. If the stock continues to trade at around 150 times earnings, a higher sales number would put it close to $100.

Why the stock might not reach $100

Even if Canopy Growth has a solid quarter, investors may not be willing to pay such high multiples to sales on cannabis stocks. With there still being a lot of uncertainty surrounding the industry in both Canada and the U.S., we saw investors cool off of marijuana stocks late last year. And although we've seen rallies happen since then, over the long term the sustainability might not be there.

For Canopy Growth to reach $100 and not split its shares, that would mean its market cap would be north of $34 billion, putting it right around where blue-chip stocks like **Rogers** and **Telus** are currently being valued. **Shopify**, which has generated a lot of sales over the years and been one of the hottest stocks on the TSX, could end up being valued lower than Canopy Growth if the pot stock would soar to those heights. I would expect there to be a lot of resistance from investors to prevent Canopy Growth from getting so big, as the aforementioned stocks have very strong track records and have generated a lot more in sales to warrant those high valuations.

Bottom line

Even with a good quarter, I wouldn't expect Canopy Growth to reach $100 this year. Investors have been a bit more hesitant on pot stocks lately, and it's important to note that although they've recovered, they've yet to reach the peaks of last year, and that's with sales being much stronger.

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