Where Will Canopy Growth (TSX:WEED) Be in 5 Years?

Description

Canopy Growth (TSX:WEED)(NYSE:CGC) has so far been the best-performing large-cap cannabis stock of 2019. Rising 67% year to date, it has just slightly edged out **Aurora Cannabis**, which has risen 66%. Canopy's strong growth this year has been driven by a solid Q3 earnings report, which saw EPS rise by 280% year over year. The solid growth was a much-needed boost for Canopy, whose Q2 earnings were widely seen as a disappointment.

This year, Canopy is focused on increasing its growth and establishing a major global footprint. It's an ambitious project that could turn the company into the undisputed market leader in a new growth industry, assuming the best-case scenario unfolds. However, there are other, less-fortunate scenarios that could play out as well. To understand where Canopy will be in five years' time, we need to look at the trajectory it's on now and ask whether it can continue long term.

Red-hot growth

As previously mentioned, Canopy is growing like wildfire at the moment, having increased earnings by 280% year over year in its most recent quarter. This is solid growth; however, Canopy doesn't hit it out of the park like this every single quarter.

In Q2, for example, the company grew at just 33% year over year and posted a massive loss. Results like these aren't encouraging for a company that is constantly diluting equity to finance its future growth, so investors will want to make sure that future quarters resemble Q3 more than Q2.

Expanding its global footprint

One potentially positive sign for Canopy's future prospects is the company's huge global footprint. Shortly after taking $5 billion from **Constellation Brands**, Canopy CEO Bruce Linton announced that he would use the funds to make Canopy the number one cannabis company in 11 of the countries it operates in.

Now, it looks like he's making good on the promise, having recently acquired the Spanish producer Cafina to increase Canopy's presence in that country. Establishing international operations is a crucial objective for cannabis companies, which are facing competitive pressure in the highly saturated domestic market.

Should Canopy's international acquisitions lead to Linton's coveted number one position in 11 countries, then it may have better growth prospects than its peers.

The crucial thing to look for in Canopy's next earnings report

In the short term, the number one thing Canopy investors are going to want to see is whether the company can keep up its fast growth in Q4. There have been questions as to whether demand for legal cannabis will drop after the novelty factor of legal weed wears off, since black market dealers offer much lower prices than cannabis stores. If people start returning to the black market en masse, then we would expect Canopy's revenue growth to slow down in Q4.

Of course, any domestic slowdown could, in the long term, be balanced out by growth abroad, but right now the domestic market is the easiest and most convenient place to sell weed and one of the few places in the world where recreational cannabis can be sold.

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