



Canopy Growth (TSX:WEED) Is Poised to Soar Like Amazon

Description

Cannabis stocks have been some of the hottest investments to own in recent years, many including **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) have generated incredible returns. Since going public in April 2014, Canopy has gained a whopping 1,620%, and despite growing concerns over the viability of the legal cannabis industry, there are signs of further growth to come.

As the rough ride endured by online retail behemoth **Amazon.com** demonstrates, there will always be hiccups for any company operating in an emerging industry. Even after the tech bust, global financial crisis, European sovereign debt crisis, and oil crash, it has returned over 116,000%, after allowing for stock splits, since its 1997 IPO.

This highlights that when investing in rapidly emerging transformative industries, it is important to invest in companies that have established a leading long-term position.

Leading global cannabis company

It is here that Canopy's appeal comes to the fore. The cultivator's shock fiscal 2019 result was particularly worrying for investors, because its loss ballooned out to a massive \$670 million, or 12 times greater than the \$54 million loss reported a year earlier. The fear among major shareholders, including liquor giant **Constellation Brands**, is that Canopy will be unprofitable, despite it being the world's largest publicly listed cultivator and the significant growth forecast for global marijuana sales.

Those fears are being fanned by disparate analyst forecasts regarding the size of the global legal cannabis market, which has been estimated to be worth as much as US\$155 billion or as little as US\$40 billion. That degree of uncertainty doesn't sit well with investors.

Nonetheless, what is undeniable is that the legal cannabis industry is here to stay and will continue to expand at a decent clip.

Canopy, as the world's largest publicly listed cannabis cultivator, has developed a global reach through a series of acquisitions and distribution agreements. It has established cultivation operations in

Canada, Colombia, Germany, and South Africa as well as an important springboard into the U.S. for when the federal government legalizes the plants use. Canopy has done this by establishing an agreement to acquire U.S. multi-state cannabis company **Acreage Holdings** when the general cultivation, distribution, and possession of marijuana is federally permitted.

Another worrying issue is Canopy's [high production costs](#) and lack of profitability. For fiscal 2019, it reported total cost of sales of \$5.65 per gram of cannabis sold, whereas production costs were \$7.21 per gram before adjustments. These are significantly higher than many other cultivators, including **Aphria**, which reported fiscal third-quarter 2019 all-in cost of sales of \$3.76 per gram. This highlights that Canopy needs to work fast to reduce costs and boost profitability.

Despite the doom and gloom, Canopy is likely to be one of the very few industry survivors to perform strongly after the cannabis bubble bursts. This is because of its first-mover advantage and growing economic moat in an industry with few significant barriers to entry. Canopy has built state-of-the-art cultivating and processing facilities, established a global distribution network, and registered 90 patents with another 240 applications underway.

Canopy also [doubled down](#) on Colombia, which is a low-cost jurisdiction where analysts estimate that the production costs will be around \$0.50 per gram of dried flower. In June 2019, Canopy disclosed that it had roughly tripled its licensed cultivating area to 13.6 million square feet and had entered an agreement with Colombian pharmaceutical company **Procaps** to develop cannabis oil-based products. This coupled with other initiatives will lead to lower costs.

After finishing fiscal 2019 with \$2.5 billion in cash, Canopy has more than enough capital to continue developing its operations.

Foolish takeaway

For these reasons, Canopy will emerge as the leading legal cannabis producer, despite the current issues that have sparked concern among investors.

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Date

2025/08/18

Date Created

2019/07/11

Author

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