



Should You Buy Canopy Growth (TSX:WEED) on Weakness?

Description

It's a question that we haven't had to ask very many times, what with cannabis stocks seemingly only going up, but at this time it is a very relevant question. Should you buy **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) on weakness? Similarly, should you buy **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) on weakness? And while we're add it, let's also explore which of these two cannabis stocks is the more attractive one to buy after recent weakness.

They're all good questions — not easy questions, that's for sure, but they're relevant questions that we need to answer. Depending on your investment philosophy, you may say that you have and will continue to stay away from cannabis stocks. This is a valid point and one that I myself have had and that I have stuck to. My investing style is more of a value style, and I am very aware of the downside that exists when we buy into stocks that are over-hyped, losing money at a feverish pace, and are all around fraught with risks.

Even the incredibly promising [cannabis industry](#), with all its explosive growth, may take longer to turn a profit than what the market has been and is still expecting, and as money continues to be spent on growth initiatives, stock issuances keep happening, and spending continues to be increased to support said growth initiatives, we may be surprised at the downside that exists. There are so many moving parts and uncertainties.

So, with all this being said, let's take a look at which cannabis stock is the more attractive one to buy on weakness at this point. For those investors that would like to bet on this sector, this decision needs to be made.

At the time of writing, Canopy Growth stock is down 36% from its April highs, and the [volatility](#) remains high. The company can be said to be experiencing some turmoil at this time, as losses have been ramping up far greater than expected, and as the board, which is dominated by **Constellation Brands** executives, pushed out co-founder Bruce Linton in an attempt to rein in the losses, which have hit Constellation hard.

Forward consensus estimates continue to be revised downward, and there remains significant

uncertainty in the company's and the cannabis industry's future. How will these companies begin to turn a sustainable profit? What will ultimately happen to the illicit market? The list of questions goes on. It seems like the only thing we can be sure of at this point is that the stocks are reflecting big growth and big profits, and investors are expecting this to happen in an ambitious timeline.

Canopy Growth stock trades at a price-to-earnings multiple of almost 50 times the current 2022 consensus estimate. That's an estimate that is three years into the future. It's also an estimate that has been cut more than once. The most recent cut took it down from \$1.57 per share to \$0.97 per share. That's a very drastic 38% cut, and it shows how much risk still lies in the stock and the lack of visibility that is still the reality with these cannabis names.

Similarly, Aurora Cannabis stock is down 33% since its March 2019 highs, and after many quarters of below-expectations results, its 2022 consensus estimate was ratcheted down 21% to the current \$0.34. Its price-to-earnings ratio on 2022 estimated earnings is also quite lofty — almost 30 times.

If you venture into this space, be cognizant of all this and know that while the upside can be huge, the downside is also huge and the lack of visibility means that it is quite difficult to make an educated decision. These stocks move a lot on sentiment and speculation, which makes investing in them challenging. Owning a basket of more than one name to diversify your risk within the space is a good way to go, but always add on weakness.

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Date

2025/08/26

Date Created

2019/07/13

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