Why Canopy Growth (TSX:WEED) Is Only Worth $14.34 Per Share

Description

If you'd told someone two decades ago that recreational marijuana use would be legalized in Canada, they would not have believed you and would likely have asked if you were high.

As of October 17, 2018, the Government of Canada legalized marijuana for recreational purposes.

Fast forward nine months, and Canada's largest marijuana company **Canopy Growth** (TSX:WEED)(NYSE:CGC) has a market capitalization of almost $16 billion.

Canopy Growth's stock price has increased 1,672% since its IPO, but this trend is unlikely to continue, and here is why.

Declining net incomes

The company raised $526 million through a capital stock issuance in 2018, which was followed by a $5.2 billion capital stock issuance the following year. In 2019, the company also raised $600 million through the issuance of debt for a total of $5.8 billion raised.

Despite this, the company's losses have continued to grow with net losses of $70 million in FY 2018 and $685 million in FY 2019.

Although it is common for companies in the growth stage to raise significant amounts of capital through stock and debt issuance, it is rare that net losses increase exponentially, despite raising capital.

As investors, we are concerned about the bottom line, and Canopy Growth has proven it has not been able to deliver.

Grossly overvalued

A recent report by the *Financial Post* pegs the marijuana industry's valuation at a mere $5 billion by 2021.

Assuming that Canopy Growth dominates the marijuana market and goes on an acquisition frenzy, whereby it purchases all Canadian marijuana companies to capture 100% of the market, its market capitalization would still be overvalued by a factor of approximately three.

Simply put, Canopy Growth's stock price should be trading at $14.34, and the increasing amount of short-sellers supports this bearish sentiment.

The marijuana industry is operating in a bubble. This means that once the hype is gone, marijuana stocks will see a major correction, which could translate into massive losses for investors.

Bottom line

Similar to the dot com bubble in the early 2000s and the pre-2008 mortgage-backed securities market, all bubbles must eventually pop.

The downside to being the largest player in a bubble is that when trouble hits, it will take the greatest hit.

Let us not forget Lehman Brother's, which once epitomized banking in the United States. After the 2008 recession, the company was so entrenched in mortgage-backed securities that the government refused to bail it out.

Canopy Growth has raised billions of dollars through stock and debt issuances, yet its net losses continue to increase exponentially.

Further to this, the company has a market capitalization of $16 billion, which is three times greater than the *total marijuana market value* of $5 billion by 2021.

The numbers do not add up for Canopy Growth, and I would caution you stay away or get out.

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