



Canopy Growth (TSX:WEED): At What Price Is This Pot Stock a Buy?

Description

Marijuana stocks have come under pressure in recent months, and many of the top names are trading at new 2019 lows.

This has investors in [cannabis stocks](#) wondering which companies might be the best buys right now to start a pot stock position or add to holdings in their portfolios.

Let's take a look at **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) to see if it deserves to be on your [buy list](#).

Wild ride

Canopy Growth's share price has been volatile this year. The stock entered 2019 at just under \$40 per share. A rally in the broader marijuana sector saw it climb to nearly \$70 at the end of April, but a reversal quickly occurred, and the decline continues to pick up speed.

At the time of writing, Canopy Growth trades for \$35.50 per share, giving the company a market capitalization of just over \$12 billion.

The stock has extended the pullback after Canopy Growth released its most recent quarterly results. The company reported revenue of \$90.5 million compared to \$94.1 million in the previous quarter. Analysts expected revenue closer to \$110 million for the three months ended June 30.

The market also didn't appear to approve of the ongoing losses. Canopy Growth reported a net loss of \$1.28 billion for the quarter. The majority of that amount, \$1.176 billion, is a non-cash loss connected to the extinguishing of warrants held by **Constellation Brands**.

The beer, wine, and spirits giant invested \$5 billion last year to increase its stake in Canopy Growth to roughly 38%. Constellation paid about \$48 per share to get a toehold in the emerging cannabis industry. Management might be questioning the move right now with the investment currently down more than 25%.

CEO fired

Constellation Brands is viewed as being responsible for the firing in July of Canopy Growth's founder and co-CEO Bruce Linton.

The move sent a signal to the market that the beverage company might be uncomfortable with the growing losses as Canopy Growth continues its spending spree to secure its position as a leader in several markets.

Linton was the public face of Canopy Growth, and his savvy media presence largely contributed to the company's rise to the top of the industry. Investors will have to decide if the departure will be a long-term negative for the stock.

Risks

Margins are getting squeezed, and the excitement that initially brought buyers into the Canadian recreational market might be fading. Products such as oils and gels are stacked up in storage rooms at retailers who are being forced to discount the products significantly to move them off the shelves.

Reports suggest black market cannabis prices are still well below legal rates, so the government's hopes of eliminating the illegal trade might have been a bit too optimistic.

Opportunity

Canada gets most of the cannabis media attention, but the international market for medical marijuana is arguably the opportunity investors should consider when evaluating Canopy Growth and its peers.

Canopy Growth has a deal in place that will see it acquire **Acreage Holdings** in the United States when the U.S. legalizes marijuana at the federal level. Acreage has production and retail operations in a number of states that currently allow the sale of cannabis.

In Europe, Canopy Growth owns a German pharmaceutical distribution company and is constructing large production facilities. As European governments modify their cannabis policies, Canopy Growth should capture a healthy part of the medical marijuana market in the region.

Should you buy?

Putting a fair value on Canopy Growth and its peers is still difficult, and we could see another significant drop in the stock price before bargain hunters decide to step in and stop the slide.

The stock was about \$32 before Constellation Brands announced its massive investment last year, so that could turn out to be a floor.

Contrarian investors who are long-term bulls on the cannabis sector might want to start a small position on further weakness, but I wouldn't back up the truck until there is a clear indication the pullback has ended.

There are other ways to play the marijuana boom without betting on the producers.

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