Why Canopy Growth (TSX:WEED) Stock Is Still a Buy for Cannabis Bulls

Description

After hitting a 52-week low, **Canopy Growth** (TSX:WEED)(NYSE:CGC) stock is getting mixed signals right now from a sell after another disappointing quarter to a buy with 25% upside potential. But is Canopy Growth a bust, or is this stock a genuine value opportunity? Let's take a look at Canopy Growth's recent performance on the TSX and see whether the weed stock might suit a cannabis bull's strategy for long-term capital gains.

Growth may be some time coming for investors

Cannabis stocks have been taking a battering of late, with some investors starting to lose interest in a sector that has not only struggled to reach profitability but has even wrestled with respectability — two areas of performance which the mainstream was perhaps right to question all along. With recession signals flashing and the **CannTrust** controversy still in the rear-view mirror, investors may be right to be spooked.

With revenue likely to slow going forwards, Canopy Growth is unlikely to live up to its name in the short term as far as actual growth investors are concerned. A value investor may be content to look at a twice-book valuation, since no other multiples offer a reliable read, though the real momentum for this stock — as it is for many other purchases in this space — is event driven.

What this means in practical terms is that investor sentiment is swayed by headlines — or, more accurately, by the events that generate headlines. This week, two market-moving developments have seen Canopy Growth catch some tailwinds: the news that ex-CEO Bruce Linton has been snapping up shares (he technically just about counts as an insider, after all), and the announcement that Health Canada has given the all-clear to Canopy Growth's KeyLeaf Life Sciences facility.

Investors should watch the edibles market closely

Investors are becoming increasingly polarized, and with so many dark clouds hanging over the economic horizon, there's little wonder why shareholders might be split. After all, legal cannabis has yet to come into its own in Canada, with a provable market but no clearly defined infrastructure of outlets and a black market yet to convert into legal sales. When this happens, the largest companies will theoretically begin to turn huge profits.

A potential bellwether for the long-term performance of cannabis companies getting in on the edibles phase will come this October, a year after recreational cannabis became legal. Deloitte has valued the edibles market at $1.6 billion, though whether the public will buy into the craze remains to be seen. While Health Canada has okayed the products, it has stipulated that they must not appeal to children, which could make marketing them something of a tightrope walk.

The bottom line

There are several distinct plays in cannabis at the moment from the American CBD market to the potential upside from the edibles legalization later this year to a long-term play on the largest cannabis growers. The latter strategy seems the most feasible for long-term investors, and as such Canopy Growth is still looking like one of the best cannabis producers to stack shares in.

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Date
2025/08/23
Date Created
2019/08/26
Author
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