



## Marijuana Investors: Canopy Growth (TSX:WEED) Could Skyrocket Back to All-Time Highs

### Description

If you want to make big money with weed stocks, you have got to be a contrarian. The broader basket of pot stocks have plunged more than 50% on numerous occasions over the last few years, and every time we reach a point of minimum hype and maximum fear, with headlines touting that the cannabis bubble has popped, marijuana stocks like **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) come roaring back, making up for lost time.

In several [prior pieces](#) published over the last month, I've been [pounding the table](#) on various cannabis stocks, including Canopy Growth stock, which soared 7.4% on Thursday along with the broader industry. Some speculators and momentum chasers give the impression that fundamentals and valuation are of little to no importance in the crazy world of marijuana, but they're dead wrong.

You see, although marijuana stocks have nosebleed level valuations that traditional value investors wouldn't touch with a barge pole, it's important to remember that all investing is, in fact, value investing. You consider the price you'll pay for a stock and weigh it against the future earnings you'll receive.

In the case of pot stocks, you'll pay a bubble-esque premium of over 30 times sales. And although pot stocks have exhibited massive triple-digit sales growth numbers to justify the multiple, many investors are losing their patience with cannabis producers that are still, after nearly one year of nationwide legalization, not seeing earnings that are in the green.

Add excessive volatility and isolated incidents (can't trust **CannTrust!**) that have acted as an overhang for the entire industry, and you've got yourself yet another violent sell-off.

### Why could Canopy be back at around \$70 by year-end?

Amid the recent carnage, the stock looks severely undervalued.

Yes, that's right, I'm calling a stock of an unprofitable company trading at 34 times sales undervalued. Partly because the recent sell-off has been overblown and is warranting of an upside correction, but

mainly because most investors either lack a truly long-term mindset or have doubts about whether Canopy will ever sustain positive earnings that can grow at a similar rate as revenues.

I think rapid earnings growth will be inevitable for Canopy, but by the time the quarterly results show evidence of such sustained profitability improvements, it'll be too late to buy your ticket to the Canopy show because a vast majority of the gains would likely happen before you've had a chance to hit the buy button.

Canopy's recent bout of margin pressures, I believe, are temporary, despite a large number of skeptics who are urging the masses to stay on the sidelines.

Now, it may take more than another year for Canopy's earnings to really start taking off, but if you are a long-term investor, the risk/reward trade-off is looking very attractive at this juncture. When you consider the boost that higher-margin ["legal edibles"](#) will have on the top and bottom line, I expect a big double-digit percentage pop in the stock, rather than a smooth ride up.

Stay hungry. Stay Foolish.

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## Author

joefrenette

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