



## Is Canopy Growth Corp. (TSX:WEED) Stock a Buy Below \$30?

### Description

The downward trend in [marijuana stocks](#) continues to send share prices to new 12-month lows.

This is a very different situation compared to the massive rally the sector enjoyed in the first two weeks of last October ahead of the launch of the legal recreational market in Canada.

**Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) traded above \$73 per share on October 15, 2018. At the time of writing the stock is \$29, not far off the \$27.50 it hit in recent days.

The anticipation of the launch of the edibles market isn't attracting investors as easily, however. This is probably due to the fact that most people who purchased pot stocks in the past 12 months are now under water on the investment.

Canopy Growth has had its share of challenges, despite its ongoing leadership position in the emerging cannabis industry.

The company's founder and CEO, Bruce Linton, who was also chairman, got the boot in July. Pundits say the board made the decision as a result of impatience from the leadership team at **Constellation Brands**, a U.S. beer, wine, and spirits giant that spent more than \$5 billion in the past two years to acquire a 38% position in Canopy Growth. Large losses combined with weaker-than-expected sales are cited as the reason for the decision.

Linton was arguably a large part of Canopy's public image and branding, and certainly the most recognized executive in the marijuana industry.

Since his departure, the stock is down more than \$20 per share. Constellation Brands paid more than \$48 per share when it made its landmark \$5 billion investment in August 2018.

The attraction for Constellation Brands is cannabis-infused beverages, which might be behind the just-announced deal that Canopy Growth is taking a majority stake in **BioSteel**, a producer and marketer of sports nutrition products.

Under the agreement, Canopy Growth is buying a 72% interest in BioSteel with an option to acquire the rest of the company.

## Opportunity

Analysts say the cannabis-infused drinks market could be worth tens of billions of dollars. If they are right, Constellation Brands could still see a significant return on its bet. The Canadian market will likely be the test, but the big prize is the United States.

Canopy Growth has secured the right to acquire **Acreage Holdings** in the event marijuana is legalized at the federal level. Cannabis is already legal in several states. Acreage was active with production and retail operations in 20 states when the deal was announced in the spring.

An opening of the American market would likely put a new tailwind behind the stocks of all players in the marijuana industry. Canopy Growth's leadership position and instant access through the Acreage deal would put it in the lead right from the start.

The partnership with Constellation would also be a great asset, due to the beer company's extensive distribution network and strong marketing capability.

## Risk

Canopy Growth has a market capitalization of \$10 billion, which is still high for a business that has annualized revenue of less than \$400 million, based on the latest quarter's results, and no profits.

Constellation Brands just saw its stock plunge from US\$206 to US\$192 after reporting results that showed it took a big hit in the latest quarter as a result of the Canopy Growth investment.

Shareholders of the drinks giant might start to put additional pressure on the company to limit the losses, which could slow plans for Canopy Growth to scale up rapidly around the globe.

## Should you buy?

Volatility should be expected and more downside could be on the way if the broader market is headed for a steep correction. As a result, I would keep any new investment to a minimum.

However, cannabis bulls will want to own this stock. If you can ride out the turbulence, a contrarian position below \$30 might prove to be a long-term winner.

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