



3 Reasons Canopy Growth (TSX:WEED) Stock Is Worth Buying

Description

It isn't easy taking a contrarian stance on an industry that's been at the centre of the investment community's attention for the past few years. However, I believe all investors should play devil's advocate to seek out the best opportunities.

And Canada's legal pot sector seems to be screaming out for advocacy at the moment. A wave of legal issues, distribution bottlenecks, regulatory hurdles, lack of cash flow, and shift in sentiment has wiped out nearly half the value of the largest players and pushed smaller ones to the verge of potential bankruptcy.

Industry leader **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) is probably the best example. The stock has lost nearly two-thirds of its value over the past five months or so. With its founder gone and sales coming in lower than expected, things just seem to be getting worse.

But that doesn't mean the firm is doomed or worth ignoring. Here are three reasons investors should consider buying, or at least monitoring, the stock over the next few quarters.

Cash

When drinks giant **Constellation Brands** purchased a hefty chunk of Canopy, it injected \$5 billion into the company. Nearly a year later, that cash hoard is down to just \$3.8 billion.

However, that's still plenty of cash to help the company finance itself for the next [two years or so](#), which means it could bootstrap its way to operational profitability. Meanwhile, the stock trades at 2.3 times cash per share and 1.8 times book value per share. That seems bizarrely low for a company projecting double-digit sales growth going forward.

New management

Canopy's notorious founder and leader Bruce Linton was ousted earlier this year, and his replacement hasn't been picked yet. However, Constellation has installed its chief financial officer David Klein as chairman of the board and Mike Lee as chief financial officer, indicating that financial discipline and

better allocation of cash is probably the company's top priority at this moment.

I would expect the next CEO to be picked in the same vein — focused on “paving a clear path to profitability,” as management said on a recent call with analysts.

Double-digit growth for a decade

Meanwhile, the global market for legal cannabis continues to mature. Frameworks for legal sales are being installed in several countries, ranging from Thailand to Columbia. By 2025, the legal weed market is expected to reach US\$66 billion in sales, implying a double-digit annual growth factor.

Meanwhile, the combined value of Canada's four largest cannabis companies has shrunk to roughly \$20 billion (US\$15 billion) at the time of writing. It may be fair to assume that one of these top producers will dominate the global industry once the market matures and stabilizes. In my view, Canopy is well positioned for that.

Bottom line

As investor sentiment goes from irrational exuberance to serious pessimism, the valuations of these pot stocks are finally getting reasonable. With enough cash to survive for years and new management, Canopy Growth is increasingly looking like a reasonable investment for long-term contrarians willing to take the risk.

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