Why Canopy Growth (TSX:WEED) Stock Could Soar to $40 Real Soon!

Description

Last November, **Canopy Growth** (TSX:WEED)(NYSE:CGC) stock traded at $45 per share. In a couple of months, it soared about 44% to $65 per share. The growth stock can experience a similar kind of soaring action this time, too.

As of writing, WEED stock trades at about $26.20 per share, and it wouldn't be far-fetched to see it soar to the $40s for more than 50% upside by the middle of next year.

Here are some drivers that can push the stock *much* higher.

Margin expansion

Last quarter, Canopy Growth saw a huge gross margin compression from 43% to 15% year over year due largely to operating costs associated with facilities that haven't begun production yet and a shift in product mix.

So, the company's gross margin can rebound meaningfully in the near future. The upcoming Q2 fiscal 2020, which is scheduled to release on November 14 before financial markets open, should shed some light around this.

Increased production and growing revenues

Canopy Growth predominantly operates in Canada to grow and sell medicinal and recreational cannabis, but it also has distribution and production licences in other countries to drive expansion in global medical cannabis.

In the last quarter, Canopy Growth increased net revenue by 249% over the same quarter a year ago, and the market leader had a record harvest of more than 40,000 kilograms. A growing production can lead to lower costs and higher margins.

It just added another retail store in Manitoba last month. This brings its owned or licensed store number to 27, representing the fourth-largest cannabis retail network in the country. More stores can drive higher revenues.

Relative valuation

Canopy Growth stock is expensive, according to the usual valuation metrics. However, in relative terms, it’s much cheaper than before. In 2018, the growth stock traded at an eye-popping 87 times sales! As of writing, it trades at *just* under 28 times.

That said, its three-year revenue-growth rate was 161%, but the growth rate can decrease. If so, it would be logical given that the company is much bigger than it was before.

Investor takeaway

As soon as Canopy Growth rebounds its gross margins to the 40% level, as it plans to by the end of fiscal 2020 in March (that will be reported in mid-May), the stock should be able to trade much higher, potentially at the $40 levels for more than 50% upside.

Currently, analysts are even more bullish; they have an average 12-month price target of $46, which represents upside potential of more than 70%.

Investors should note that investing in the cannabis industry, Canopy Growth, included, is speculative at best. So, be rational and play within your limits.

Stay hungry. Stay Foolish.

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