3 Reasons You Should Buy Canopy Growth Stock now

Description

After an abysmal quarter, weed stocks have been battered across the board. Industry leader **Canopy Growth's** (TSX:WEED)(NYSE:CGC) stock has been hit the worst and is now trading at its lowest value since weed was legalized in 2017.

Investor sentiment in this sector has clearly moved to extreme pessimism and with good reason. Growth and cash flow expectations have been dashed, as Canopy reported a loss of $374.6 million or $1.08 a share in its second quarter and net revenue declined 15% sequentially to $76.6 million –worrying signs for a "growth" stock.

Unsurprisingly, the stock is down by double-digit percentages since the results were announced. However, I believe this recent plunge in the company's valuation offers long-term investors a healthy point of entry. Canopy is likely to survive this current phase of turmoil and consolidation and come out on top.

Here are three reasons for my optimism.

Low valuation to cash

The recent correction has made the valuation of weed stocks more realistic. Gone are the days when a cannabis producer could trade at hundreds of times revenue. Now, investors are much more skeptical and the valuations are more in line with fundamentals.

In Canopy's case, I believe the current valuation is falling below fundamentals. Let's not forget that this company is backed by one of the world's largest alcoholic beverage producers and has billions in cash on hand. $2.7 billion to be exact, according to its latest reports.

At the moment, the stock is trading at 2.67 times this cash per share value, which indicates that investors have oversold.

Path to profitability

Unlike its smaller and less resourceful rivals, Canopy has a path to profitability because of its cash hoard. That $2.7 billion is likely to keep the company funded for the next three years. Over three years, Canopy's production facilities will be fully operational, the market price for its product will stabilize, and marketing expenses will moderate.

In other words, Canopy doesn't need to issue more shares or borrow external capital to keep operations going, as its smaller rivals fail and leave more space for the company to expand. I estimate that Canopy could be profitable by 2022.

Emerging consumer brands

Canopy's recent partnership with Drake is a clear indication that this company will dominate the consumer market for weed with exceptional brands.

Tweed and Tokyo Smoke are already emerging as recognized brands on social media. Martha Stewart, rapper Snoop Dogg, and actor Seth Rogan have already teamed up with Canopy, so adding the Toronto rap star is another partnership that adds immense value to Canopy's brand portfolio.

Over time, I expect these brands to create intangible value and a competitive advantage for the company that should help it cement its lead in the industry.

Foolish takeaway

Betting on weed stocks isn't for the faint of heart at the moment. The industry faces plenty of challenges. However, I believe none of these challenges are existential or insurmountable for Canopy.

If my thesis is correct, long-term shareholders should see the current market price of Canopy's stock as an excellent opportunity.

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