Canopy Growth (TSX:WEED) Stock Surges: Should You Buy the Bounce?

Description

Bargain hunters are finally piling into the troubled cannabis sector, and investors who have been on the sidelines during the 2019 rout are wondering if this is the right time to add pot stocks to their portfolios.

Let's take a look at **Canopy Growth** (TSX:WEED)(NYSE:CGC) to see if it deserves to be on your buy list right now.

Volatility continues

Canopy Growth's stock price is up 25% in the past two days. The stock went as low as $18.30 per share before rallying to the current price above $23.

This comes after a nasty meltdown that began in May and has taken the stock from a 2019 high near $70 to the recent low. Canopy Growth isn't the only marijuana stock to get hammered this year. In fact, the entire sector has been a disaster for investors.

The general malaise in the industry is due to weaker-than-expected sales in the Canadian market after the highly anticipated legalization of recreational cannabis in the country. The initial challenges came from a lack of supply and problems with distribution.

In the first half of 2019, some company-specific problems also emerged, as non-compliance with Health Canada production regulations and accusations of self-dealing by pot-stock executives tarnished the reputation of the industry. Investors started to lose patience with management, as the quarterly results continued to expose large losses.

The heavy expenditures are to be expected in a rapidly growing industry where players are trying to gain a competitive advantage by scaling up production and distribution capacity in many new markets. At some point, however, there has to be a reasonable path to profitability, and that isn't evident yet at most of the big marijuana companies.

In the case of Canopy Growth, the company's founder, who was also chairman and CEO, lost his job this summer after the board fired him. The general consensus among pundits is that Canopy Growth's largest shareholder, **Constellation Brands**, was uncomfortable with the ballooning losses and stalled revenue growth.

Constellation Brands invested more than $5 billion in two rounds to take a 38% stake in Canopy Growth. The $5 billion investment made in August 2018 was at a share price above $48.

Constellation Brands is a U.S.-based beer, wine, and spirits giant that counts Corona among its stable of global brands. Constellation Brands and Canopy Growth are developing cannabis-infused beverages ahead of the anticipated opening of the edibles and drinks segment in Canada.

Should you buy Canopy Growth right now?

The stock has definitely taken a pounding and the recent rebound could continue in the near term, as short-sellers cover their positions and cannabis bulls step in to start new positions. Canopy Growth is a global leader in the cannabis industry and stands to be one of the eventual winners once all the dust settles on consolidation and the gradual opening of new medical marijuana markets around the world.

That said, investors should be careful. Ongoing volatility is expected, and revenue challenges remain in place in Canada amid a lack of physical retail outlets in Ontario and Quebec.

If you are of the opinion the latest pullback has run its course and that revenue will improve in 2020, it might make sense to take a small contrarian position in Canopy Growth, but I wouldn't bet the farm today.

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