Is It Finally Time to Buy Canopy Growth (TSX:WEED) Stock?

Description

Canopy Growth Corp (TSX:WEED)(NYSE:CGC) was one of the most notable stock market losers of 2019. Starting off the year at $39, it has since fallen to $23.91. At one point last month, the stock closed at $18.79, a level it hadn't seen since 2017.

As a result of the losses it has sustained, Canopy is getting cheaper than it had previously been, which raises the question of whether it's time to buy.

Nearing 52-week lows, Canopy shares may look undervalued. However, before we explore that possibility, we need to look at why Canopy started falling in the first place, and whether the factors that led to the decline are still present today.

Why Canopy fell this year

Canopy's slide in 2019 has coincided with four developments:

1. The firing of former CEO Bruce Linton
2. A sector-wide selloff in cannabis stocks from which none emerged unscathed–not even profitable companies like **Aphria**.
3. A massive $1.28 billion loss in Q1
4. A second large loss in Q2

Whether any of these developments directly caused canopy's share price collapse is uncertain. It would be strange if the losses in Q1 and Q2 didn't contribute at least somewhat.

Similarly, the sector-wide selloff in marijuana stocks was probably a factor, since stocks tend to move together with their peers. As for the firing of Bruce Linton, it probably had some effect on Canopy's stock price movements this year, but it's not obvious whether they would have been positive or negative.

Why some are saying it could turn around

Lately, some have been speculating that Canopy could be set for a comeback. The stock is certainly cheaper than it has been in the past, and it does look poised to benefit from certain business developments.

For one thing, we have the cannabis 2.0 phenomenon. Earlier this year, the federal government legalized a number of cannabis products that were still illegal after 2017's initial legalization. Canopy is fully capitalizing on these new product categories.

The company's Smith Falls facility is working on cannabis-infused beverages, a new product category that some are hoping will produce higher margins that pure cannabis flower.

Another interesting product the company is rolling out is cannabis chocolates, a new form of edible that, unlike brownies, is difficult for customers to make themselves at home.

Reasons to remain skeptical

Despite all the interesting things going on with Cannabis 2.0, there are good reasons to remain skeptical of Canopy Growth stock.

For one thing, although Canopy is cheaper than it was in the past, it's still extremely expensive, with a price-to-sales ratio of 24.

As well, the company is posting bigger losses than almost any of its peers, some of which are beginning to catch up on revenue.

Finally, the stock's "star power" is beginning to evaporate, as it's receiving less hype and media coverage than it did in the past.

For these reasons, Canopy may not be a buy even with its stock having gotten much cheaper.

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