



Here's Why Canopy Growth (TSX:WEED) Stock Is Only Worth \$15

Description

The cannabis sector is a difficult industry; although there are going to be winners in the long run, there are also companies that are far too overvalued today, and distinguishing between the two is not easy.

Since most of the industry is not yet earning a profit, and we still have to worry about other headwinds affecting the sector, it's going to be a while before the winners and losers can separate themselves.

Once the industry has evolved and matured enough, it will soon become a lot clearer what each company's rough value is. A number of stocks will rise while others fall sharply.

For example, for a while I have been bullish on **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) as an industry leader, but the massive differences in valuations between Canopy and many of its competitors has become too large to ignore.

And while the company may remain one of the best in the business, with a tonne of opportunities around the world and investments in sports drinks like BioSteel, it can be easy to want to own the industry leader.

When you begin to compare it to a large competitor though, like **Aurora Cannabis**, it's clear it will be next to impossible for Canopy to deliver on what the market is expecting.

At current valuations, Canopy is worth roughly \$11 billion and has trailing 12-month sales of just \$344 million giving it a price to sales of 31 times.

Compare that to Aurora's market cap of \$2.7 billion and trailing 12-month revenue of \$294 million — a price to sales of just 9.3 times, which is less than a third of Canopy's valuation.

I'm not necessarily saying that Aurora is going to be a long-term winner either, as it's had its fair share of problems too, and a 9.3 times price-to-sales ratio is actually still pretty high.

The point is, though, that Canopy will have to grow its revenue many times over and have highly profitable operations to even come close to justifying its valuation today. Because of this, I don't see

much upside in the value of the stock over the long term. While the shares may move around and become volatile based on some news in the short run, that's all it will be — news.

If you want to seriously invest in a cannabis company for the future, you are going to need to find a company that has both a valuation that reflects its true worth today and the ability and potential to grow its operations considerably in this opportunistic industry.

Like I mentioned, Aurora is in better shape than Canopy; it's valued a lot more fairly. While both companies have the ability to grow their businesses equally, Aurora has a much better chance of rewarding investors because of its cheaper valuation.

However, if you are looking for some companies that are of the best in the industry and have even cheaper valuations, you could consider buying a [pot stock](#) like **Organigram** or **Aphria**, which have price-to-sales ratios of six times and 3.7 times, respectively.

I'm not saying Canopy Growth won't be the industry leader. I actually think it will be. What I'm saying is that its stock is so overvalued, it could take years for it to actually be worth the \$11 billion it's valued at today.

That's why it's no surprise why Canopy's average target price is below its current trading price at the time of writing — an average of \$28.32, nearly 10% lower.

For comparison, Aurora has an average target price from analysts of \$3.73 — 43% higher than its price at the time of writing, so it's clear what analysts think of Canopy.

In my opinion, these analyst estimates for Canopy especially are quite high, especially when you consider they are supposed to be one-year target prices.

Canopy is not worth more than \$5 billion today, meaning its share price should be a lot closer to \$15.

There's no telling what it could be worth in the future or how long it will take to grow into its potential, but the way it's priced today, there isn't much room to the upside for investors.

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. Cannabis

TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

1. Business Insider

2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Cannabis Stocks
2. Investing

Tags

1. Cannabis

Date

2025/08/25

Date Created

2020/01/31

Author

danieldacosta

default watermark

default watermark