Is This the Perfect Time to Buy Canopy Growth (TSX:WEED) Stock?

Description

Investing isn't just about being right; it's also about being right at the perfect time. In the early 90s you could have predicted that the rising crop of internet startups were likely to create trillions of dollars in value over their lifetime. However, if you'd invested in these companies right away, you would have probably lost all your money in the dot-com crash of 2001.

A similar pattern seems to have emerged in Canada's legal marijuana sector. Savvy investors who bet on legalization early in 2015 and 2016 were rewarded with unbelievable gains when marijuana was officially legalized in 2018. However, the sector failed to live up to expectations in 2019, and valuations came crashing down.

Industry leader **Canopy Growth** (TSX:WEED)(NYSE:CGC) probably lost the most. The company's stock price plunged nearly 70% between April and November 2019. That's over $12 billion in market capitalization wiped off in fewer than eight months. The company also lost its founder and chief executive officer, while the board initiated a painful restructuring process.

Canopy wasn't alone. Many of the company's top rivals also lost billions in market value and senior staff, as Canadian investors reassessed the true economic impact of legalizing the drug for consumers. Some high-profile names folded, while others trade at a fraction of their former valuation.

It may be fair to say that the overall sentiment for the legal cannabis sector is as pessimistic as ever, which could mean that it's the perfect time for investors to take another look under the hood and make some contrarian bets. I believe that industry leader Canopy Growth is probably undervalued for the first time in years. Here's why.

Market consolidation

A market correction culls the herd and reduces competitive pressures for the top players. Now that some cannabis producers have gone out of business and plenty of smaller companies face bankruptcy, industry leaders like Canopy Growth can grab more market share and consolidate their position.

The company already controls roughly one-third of the domestic market, which puts it in a favourable position to dominate foreign markets as well.

Edibles

In 2019, Canada legalized several new categories of cannabis products beyond the traditional buds and rolls. Now, producers can market edible products such as brownies and beverages like marijuana-infused beer. This move could effectively double or triple the market for cannabis, according to my Fool colleague Ryan Vanzo.

I believe these new categories should be easier to brand, market and consume, leading to margin expansion for the top players. Canopy already has several well-established brands like Tweed and Tokyo Smoke along with celebrity partnerships with Seth Rogan and Drake that give the company a competitive edge in this arena.

Resources

Perhaps the best reason to be optimistic about Canopy's prospects is its unparalleled economic resources. The company has $2.28 billion in cash and cash equivalents and $15 in per share book value, while the market price is $30 per share. It's also backed by the resources and distribution network of its parent company, **Constellation Brands**.

Those resources dramatically increase Canopy's chances of survival as the market drags itself through this painful consolidation period.

Bottom line

With its brands, cash, and attractive valuation, it may be the perfect time to add Canopy Growth stock to your long-term growth portfolio.

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Date
2025/08/18
Date Created
2020/02/21
Author
vraisinghani