



## Why Canopy Growth (TSX:WEED) Stock Soared 22% Higher This Week

### Description

**Canopy Growth Corp.** ([TSX:WEED](#))(NYSE:CGC) was the first North American cannabis company to be publicly traded. It has been through many ups and downs as Canada worked hard in the early days of legalization. Management has been shuffled, strategic investors have entered the picture, and a bubble was burst.

This week, we saw renewed optimism and hope coming from this once astronomically valued cannabis stock. Biden is now president-elect, easing the path to federal legalization of cannabis in the United States. And Canopy Growth's fiscal 2021 second-quarter results and outlook are strong.

In response to all of this, Canopy Growth stock rallied 22% in the last five days, so things are looking up. Read on for more detail.

### Canopy Growth posts solid revenue growth in Q2

As the cannabis company that benefits from first mover advantage, Canopy Growth is still the go-to stock for investors. The company has a sizable cash balance of almost \$2 billion and is finally forecasting positive adjusted EBITDA.

Adjusted second quarter revenue increased 23%. It's not the kind of revenue growth that we saw when Canopy Growth first became public, as Canopy Growth stock valuation doesn't reflect that type of unrealistic growth anyway. Today, the stock's valuation reflects a more realistic growth path.

As well, it's better quality revenue growth accompanied by significant cost reductions and market share gains. This, in turn, has led management to forecast that the company will achieve positive adjusted EBITDA at some point in fiscal 2021.

This is all pretty huge. Canopy Growth is making market share gains, opening new stores, and cutting expenses drastically. This is finally a business to consider investing in.

## Biden win is positive for federal marijuana reform in the U.S.

[Now that Biden has won the U.S. presidential race](#), that country may further destigmatize and normalize the use of cannabis. Federal legislation may accompany this now that the democrats have gained the presidency.

Biden doesn't believe that anyone should be in jail for marijuana use. The decriminalization of marijuana is well under way in the U.S. Eleven states already allow for the consumption and/or retail sale of marijuana. According to Gallup polls, 66% of polled Americans favour national legalization of marijuana.

## Canopy Growth stock's valuation reset

In the height of the marijuana bubble, Canopy Growth stock was trading at bubble valuations. Its price to sales multiple was well over 100 times back in 2018. [As I pointed out back then, this was not sustainable](#). And the stock went on the plummet 74.5% from its highs in 2018 to lows of \$18.78 in October of 2019.

That's a far cry from bubble levels. Canopy Growth stock's price to sales multiple went from a price to sales multiple of over 100 times to today's multiple of 25 times. I would much rather own the stock today when expectations are more reasonable. The stock is not priced for perfection anymore. The company therefore has a little more wiggle room.

## Motley Fool: the bottom line

Canopy Growth stock has rallied in the last week as the market is rewarding the company's progress. Also, the macro environment is looking better as Biden has won the presidential race. Federal legalization in the U.S. is now looking more plausible.

This cannabis stock has big upside today with much less downside than we have grown accustomed to with this sector. In my view, the risk/reward is very favourable today.

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