Cannabis Investors: Put This Stock in Your Pipe and Smoke it

Description

The Canadian cannabis sector is starting to see a nice rebound of late. Stocks like **Canopy Growth** (TSX:WEED)(NYSE:CGC) have rightly rebounded in line with other growth stocks today. Investors have become much more optimistic of late. Therefore, it's no surprise Canopy has rebounded more than 140% from its 52-week low.

Here's why I think more upside could be on the horizon for this stock in 2021.

Cannabis 2.0 products are likely to (finally) take off

The launch of cannabis-infused beverages and other Cannabis 2.0 products has been met with an overwhelming "meh" from investors. The market for these goods remains miniscule. That said, I see tremendous growth potential on the horizon for this nascent sub-sector.

Should the Cannabis 2.0 sector increase meaningfully in size, we could see some significant margin improvement for Canopy. Furthermore, the growth this sector has been projected to provide would help support the growth thesis for Canopy and its peers. Of course, until this growth materializes, this is purely speculative. Therefore, investors in this stock need to be fully aware of the downside risks before jumping in with both feet right now.

U.S. exposure is likely to become a key catalyst for investors

As fellow Fool contributor Joey Frenette pointed out, the deep pockets of **Constellation Brands** could be a key factor investors take into consideration in 2021. Constellation is a key player in the U.S. alcoholic beverage sector. Accordingly, Canopy's transition toward margin enhancement through Cannabis 2.0 products is made easier with this partnership.

Constellation has put its money where its mouth is with respect to Canopy. Indeed, the company's more than $4 billion investment in Canopy should indicate bullishness among long-term investors in this sector. The sector is still in its infancy, and there are many unknowns with investing in this space.

That said, some pretty influential investors seem to think the growth upside is worth the price right now.

The valuation not cheap

With all this in mind, it's important to remember that Canopy is not cheap. This stock is trading in the nosebleed levels in terms of most valuation metrics. At around 27 times sales, this is far from a cheap stock. Furthermore, the company's significant negative operating cash flow generation of -$700 million is bearish for long-term investors. This is because more cost cutting is needed to improve cash flows to positive levels. Accordingly, such cost cutting could eat into the growth potential of this stock in the medium term.

I remain on the sidelines with respect to this growth play right now, mostly due to valuation concerns. That said, I recognize that significant upside potential exists with this stock. For those with wiggle room in their "play money" portfolios, Canopy is an interesting momentum play to consider right now.

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. Cannabis
2. Cannabis Stocks
3. growth stocks
4. investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Cannabis Stocks
2. Investing

Tags

1. Cannabis
2. Cannabis Stocks
3. growth stocks
4. investing

Date
2025/07/20
Date Created
2021/01/06
Author
chrismacdonald