



Up Over 50%: Is Canopy Growth (TSX:WEED) a Buy at These Levels?

Description

There has been a lot of optimism in the cannabis sector over the past couple of months. Joe Biden's victory and the legalization of recreational cannabis by four U.S. states have improved investors' confidence. On Tuesday, democratic candidates won the two seats in Georgia, thus shifting the Senate's control to Democrats, which could help in the cannabis decriminalization process.

So, amid the renewed interest in the cannabis sector, **Canopy Growth's** ([TSX:WEED](#))(NYSE:CGC) stock has increased by over 54% since the beginning of November. Despite the surge, the company still trades around 40% lower from its 2019 highs. Should you be buying Canopy Growth at these levels? Let's first look at the growth prospects of the cannabis sector.

Cannabis sector's outlook

In the United States, 36 states have legalized cannabis for medical purposes, while 15 states have legalized cannabis for recreational usage. Meanwhile, the federal government prohibits cannabis usage, which has been a significant hurdle for its growth prospects. Meanwhile, with democrats taking control of both House and Senate, pro-cannabis initiatives, such as the *SAFE Banking Act* and the *MORE act* could easily be cleared, allowing cannabis companies better access to the capital in the coming months.

Moreover, amid the increased expenses due to COVID-19, many state budgets have incurred significant deficits, which could prompt other state governments to legalize cannabis to earn additional tax revenue. So, the United States market offers enormous growth prospects. New Frontier Data expects legal cannabis in the United States to grow at a compound annual growth rate (CAGR) of 21% to reach US\$41 billion by 2025.

Meanwhile, Coherent Market Insights [projects](#) the global cannabis cultivation market to grow at a CAGR of 18.2% from 2020 to 2027. With the cannabis sector offering high growth prospects, let's look at Canopy Growth's initiatives.

Canopy Growth's growth prospects

Canopy Growth's management has estimated that the United States, Canada, and Germany account for 90% of the cannabis global addressable market. The company is thus focusing mainly on these three markets. In the Canadian recreational market, the company had expanded its market share by 200 basis points in its recently announced quarter to 15.5%.

The improvement in the quality of its value products, expansion of its Cannabis 2.0 portfolio, and its strong retail presence have helped the company expand its market share.

Canopy Growth has acquired a significant market share in the cannabis-infused beverage segment. Currently, it has introduced seven ready-to-drink THC beverages and two ready-to-drink CBD beverages in the Canadian markets. Further, the company opened nine retail stores in the second quarter to increase the number of corporate-owned store count to 32.

Moving to the United States, Canopy Growth had partnered with Martha Stewart to launch a portfolio of health and wellness CBD products in September 2020, which have received a positive response from customers. Its subsidiary, Biosteel Sports Nutrition, has signed distribution agreements with Manhattan Beer and Reyes Beer Division to expand the availability of its ready-to-drink sports beverages across the country.

Canopy Growth's Storz & Bickel vaporizer products are witnessing strong growth amid distribution gains and reorders. The company has planned to triple its production this year to meet the increasing demand. Further, Canopy Growth intends to introduce THC-infused beverages in California and Illinois in association with **Acreage Holdings**. With its liquidity standing at \$1.72 billion, the company is well-positioned to implement its growth initiatives.

Bottom line

Canopy Growth is yet to become profitable. However, the company's management has taken several cost-cutting initiatives, such as the closure of production facilities and slashing of its workforce, to move towards profitability. The management expects to report positive EBITDA in fiscal 2022. Given its growing addressable market, expanding market share, and improving margin, [I am bullish on Canopy Growth](#).

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