Can Canopy Growth Stock Continue its Parabolic Move?

Description

Canopy Growth (TSX:WEED)(NYSE:CGC) has freshly minted 52-week highs today. This stock's rapid stock price appreciation has taken many by surprise of late. Indeed, an increase of approximately 375% from March lows is impressive.

Can this parabolic move be sustained?

I'm going to discuss the bull case and the bear case for why this stock may or may not continue in the direction near-term momentum is taking it.

The bull case: More parabolic growth on the horizon!

As perhaps the most well-respected cannabis stock on the TSX, Canopy Growth has been the first choice for many looking for exposure to the cannabis sector via the stock market. Accordingly, it comes as no surprise that Canopy is the first company many investors choose to take advantage of the growth catalysts in this sector.

The incoming Biden administration has provided a very lucrative potential catalyst: legalization in the U.S. cannabis sector. Currently illegal federally but legalized at the state level across a patchwork of states, federal legalization would be absolutely massive. This not only opens up a host of new markets to sell weed legally but reduces the regulatory and legal risks associated with operating in the U.S.

Canopy is a Canadian cannabis player with the potential to deliver on growth strategies in the United States. That is, if Canopy's management team chooses to become a player south of the border, parabolic growth could follow. I think Canopy's track record in the Canadian market could bode well for a U.S. expansion. Accordingly, this is a stock that could continue this move higher if this sentiment prevails.

The bear case: Sell now before this sector sees a revaluation!

One of the unfortunate realities of potential legalization for Canadian cannabis players is the fact that this will mean U.S. companies can go public. For the past three years, Canadian cannabis companies have been the only game in town. Therefore, investors looking for exposure to this trend were forced onto the Canadian exchanges. Capital outflows into U.S.-listed cannabis players could have a significant impact on domestic stocks.

Additionally, the amount of catch up that will be required for companies like Canopy to be competitive in the U.S. won't be cheap. Indeed, Canopy does have a solid footing in the U.S. via its **Constellation Brands** partnership. That said, I think investors will want to see growth in vertically integrated operations based in the United States. In this regard, Canopy has some work to do to build its American presence. It's just time and money, but the question is how patient investors can be during the next few years.

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