



## Canopy Growth (TSX:WEED) Jumps 20%: But Should You Buy?

### Description

Shares in **Canopy Growth Corp.** ([TSX:WEED](#))(NYSE:CGC) jumped this week by about 23%. The stock trades at about \$65 at writing, which blasted past its 52-week high and is just 11% shy of its all-time high. That high hasn't been seen in Oct. 15, 2018 on the even of cannabis [legalization](#).

### Earnings win

Let's start with the most obvious reason for the recent boost in Canopy Growth. The company announced its third quarter earnings this week. Revenue came in at \$152.5 million, beating analysts expectations with a year-over-year increase of 23%. This growth was driven by increased recreational sales in Canada, and in international medical sales.

Another great indicator was the improvement of its earnings before interest, taxes, depreciation and amortization (EBITDA). The company announced it had decreased its EBITDA to a \$68 million loss from \$97 million the year before. This was thanks to the cuts made by the company.

And that's where analysts and investors were really impressed. Yes, there was a loss of \$829.3 million. But that came down to one-time costs due to restructuring and impairments. The company believes that now those costs are out of the way, not only will it see improvement but likely profits in the next year.

### Pre-existing condition

But shares in Canopy Growth weren't exactly low before earnings. That came down to the new United States administration. President Joe Biden's administration announced before the November election it would decriminalize marijuana. While that's not federal legalization, it's a huge step towards it.

Furthermore, four states legalized cannabis in the U.S. — a move that excited Chief Executive Officer David Klein, who believes this could be the year we see legalization. Whether that's true or not, there are certainly plenty of opportunities for expansion for Canopy Growth, which already has a solid

foothold in the U.S. through cannabidiol (CBD) products.

## Acreage growth

But what's really exciting for investors is the future of Canopy Growth. The company continues to inch nearer and nearer profitability, and that certainly would come with U.S. legalization not only from its existing facilities, but also from the planned acquisition of **Acreage Holdings Inc.**

I say planned because the \$3.4 billion deal wouldn't go through until federal legalization south of the border. But if it does, the company would have access to all the cultivation, processing and dispensing that Acreage has to offer across the U.S. That's massive. It would securely place Canopy Growth as the largest producer in the world in arguably the most lucrative marijuana market.

## Bottom line

So is Canopy Growth a buy? It's hard to look at cannabis stocks and think long term. It just seems so... illegal. But it's not. Investors have to remember that value investing is what's key. You need to look at stocks that will be around decades from now and know the share trend will go upward from company's with strong balance sheets and future growth outlook.

Canopy Growth has that. It is definitely going to be one of, if not the biggest, marijuana producers in the [world](#). By 2027, the cannabis market could be worth US\$73.6 billion according to analysts. Canopy Growth is likely to have a large piece of that pie.

So if you're a value investor, look to the company's price-to-book ratio of 4.4 times. A value stock is under 3x, making Canopy Growth fairly valued at the moment. Look to its partnerships with everyone from Martha Stewart and Snoop Dogg to **Constellation Brands**. Look to its production activities in low-cost countries. The company is set up for long-term success, so investors should be too.

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