



Is Canopy Growth (TSX:WEED) a Buy at \$45?

Description

The cannabis sector has been witnessing strong buying this year amid expanding addressable market. With Democrats now controlling both the Senate and House in the United States, investors hope that pro-cannabis bills, such as the SAFE Banking Act and the MORE Act, could soon become laws.

Supported by improved investors' sentiments, **Canopy Growth's** ([TSX:WEED](#))(NYSE:CGC) stock rose to a high of \$71.60. However, the fears of Reddit investors targeting cannabis stocks dragged the company's stock down. It currently trades over 38% lower than its recent highs. So, is Canopy Growth a buy at \$45? Let's first look at its growth prospects.

The cannabis sector offers high growth prospects

Last November, five more U.S. states legalized their cannabis programs. Meanwhile, many more states could follow suit amid their budgetary deficits due to COVID-19-related spending. Further, the SAFE Banking Act's passing could provide cannabis companies access to much-needed liquidity.

Meanwhile, many other countries are also considering cannabis legalization amid the increasing evidence of the therapeutic benefits of cannabis. Given the favourable environment, Research and Markets [expects](#) the legal cannabis market to reach US\$90.4 billion by 2026, representing an annualized growth rate of 28%. So, the cannabis sector offers high growth prospects.

Canopy Growth's outlook

Canopy Growth focuses on three top global cannabis markets — Canada, the U.S., and Germany, which form 90% of the worldwide cannabis sales. In its domestic market, the company has acquired a significant share in the flower and beverage segment. Meanwhile, the company recently conducted market research to understand customers' insights and develop innovative products to meet their needs. Based on those results, the company has planned to launch several products across various price points.

In the United States, the company is investing in building its infrastructure to strengthen its position. The company focuses on expanding the distribution of its strategic business units, BioSteel, Storz & Bickel, and This Works, which could drive the company's sales in the coming quarters. It has also launched many CBD products in association with Martha Stewart.

Further, the company owns warrants to acquire **Acreage Holdings**, a multi-state operator, once the federal government legalizes cannabis. So, I believe Canopy Growth is well positioned to benefit from the growing U.S. cannabis market.

Further, Canopy Growth's management has set a promising outlook for the next three years, with its top line expected to rise at a CAGR of 40-50%. The company has not achieved breakeven yet. Meanwhile, the management is hopeful of reporting positive adjusted EBITDA in the second half of fiscal 2022 while improving its adjusted EBITDA margin of 20% by fiscal 2024. So, I believe Canopy Growth's outlook healthy. Further, its financial position also looks strong, with its cash and cash equivalents standing at \$1.59 billion as of December 31.

Analysts' recommendations and bottom line

Analysts favour a hold rating for Canopy Growth. Of the 20 analysts following the stock, 15 have issued a "hold" rating, while four have given a "buy" and the remaining one analyst has given a "sell" rating. Overall, analysts' consensus price target stands at \$50.26, representing a potential return of 13.3%.

Meanwhile, [I am bullish on the stock](#). Investors should utilize the recent correction to accumulate the stock for superior returns, given its growth initiatives, healthy liquidity position, and expanding cannabis market.

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