



Should You Buy Canopy (TSX:WEED) After its Supreme (TSX:FIRE) Bet?

Description

The cannabis sector started 2021 quite strong. The S&P/TSX Cannabis Index grew well over 130% in fewer than 40 days into 2021. But following its historical pattern, the sector started to slump and has come down 43% from its yearly peak. It did supercharge the healthcare sector and elevated it to the highest-growing sector of the first quarter of 2021.

Few [cannabis companies](#) managed to hold on to the relatively high price point, but most have been going down considerably. **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) is the latter kind. It has fallen over 46.5% from its yearly peak, and it seems like that downward motion might continue. But the company recently announced an acquisition that might breathe some life into its stock.

Canopy's latest acquisition

Canopy Growth is buying Toronto-based **Supreme Cannabis** (TSX:FIRE) for \$435 million. The acquisition is in line with Canopy's aim to add more premium brands to its portfolio and consolidate the local recreational market by bringing high-quality products (with a loyal consumer base) under its umbrella.

Supreme is a well-known name in the Canadian recreational cannabis market, and the acquisition is expected to give Canopy a strong footing in the local recreation market. The company is expected to make more acquisitions across the border, and it's only waiting for the federal government to legalize marijuana across the country.

Canopy won't be the only company to do it, but it might focus on a relatively select group of the target market — i.e., consumers who focus on high-quality cannabis products, especially in the recreational segment. The underlying psychology behind this approach might be the fact that it would be difficult for black market sellers to pry away consumers who prefer premium-quality products and are relatively more "brand loyal."

Sector-wide trend

The acquisition of Supreme by Canopy is not the first major acquisition in the sector, and it won't be the last. It will only expedite once the U.S. federal government legalizes cannabis. Then each major player will try to consolidate territory in the new market by buying up local businesses.

Cannabis companies in Canada are still laden with the weight of a lot of unsold cannabis and an unbridled black market. If the demand in the U.S. market is high enough, companies like Canopy won't just be able to push out their inventories faster, but they might also feel justified in ramping up production. The recreational cannabis market is still evolving, and Canopy has made a smart move in snatching up a well-known name.

Foolish takeaway

[The question](#) is whether or not Canopy is a good buy right now. The company has been growing its revenues at a steady pace, and the loss is slowly shrinking. It's not undervalued per se, but it's significantly discounted and might remain so for a while. The chances that the stock might spike again are high, so it might be a good idea to consider buying this company before it gets too hot to touch.

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Author

adamothonman

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