



## 3 Ways for Investors to Cash In on the Upcoming Marijuana Boom

### Description

I've never tried marijuana and don't envision the desire to do so in the future. I'm sure my mother is proud.

It appears people like me are becoming more and more of a minority. According to a recent poll, approximately 20% of Canadians admitted to consuming marijuana in some capacity over the past year with another 10% or so saying they would be open to doing so once it becomes legal.

That works out to a potential market of eight million Canadians.

Many Canadian investors are clamouring to get into the sector, worried they're going to miss out on the next big investing trend. Here are three ways for investors to get exposure to this sector.

### Canopy Growth

**Canopy Growth Corp.** (TSX:CGC) is quickly becoming Canada's go-to marijuana investment. It offers plenty of liquidity, membership on the Toronto Stock Exchange (and the legitimacy that goes with it), and an ambitious business plan.

That business plan is simple. Canopy leases unused warehouse space and grows pot, selling the finished product directly to customers using the mail. Customers get a consistent product emblazoned with names like Sunset, Ocean View, and Palm Tree, which comes approved by celebrities like rapper Snoop Dogg, who is probably marijuana's most visible user and advocate.

But there's a big problem with investing in Canopy Growth. Its valuation is lofty. We're talking internet bubble high. Over the last 12 months, the company has produced just \$18 million in revenue and lost \$8 million. Shares currently have a market cap of \$695 million, putting it at 38.6 times sales.

Profitability is still a long ways off too, at least according to analyst projections. The company is expected to continue losing money in 2016, pulling closer to break even in 2017.

In short, there's a lot to be excited about with Canopy Growth. But the valuation should be enough for

any serious investor to take a major pause.

## Loblaw

Wait. What?

On the surface, it doesn't appear **Loblaw Companies Limited** ([TSX:L](#)) has any potential way to cash in on marijuana. Canada's largest grocer doesn't even sell cigarettes in many of its stores anymore, bowing to the changing times.

Loblaw's subsidiary Shoppers Drug Mart has recently applied for permission to sell medical marijuana in its pharmacies, signaling another big breakthrough for Canada's medical marijuana industry. More than 1,700 Shoppers locations will carry medical marijuana once approved.

Once the drug becomes legal, there's even the possibility of both Loblaw and Shoppers Drug Mart stores carrying it, much like many stores carry cigarettes today. Every chain is looking for additional reasons to get people in the store, and if the average customer is anything like the pot smokers I know, they'll be loading up on snacks for later.

## Philip Morris

Speaking of cigarettes, the folks running **Philip Morris International Inc.** ([NYSE:PM](#)) are running into a problem. People are butting out forever, and there aren't enough young people starting up to make up for it. With the exception of a few markets, volumes are steadily decreasing.

The company has dealt with this in one major way—by increasing prices. That's pretty easy to do when someone is addicted to your product.

Fully legal marijuana offers a big growth opportunity for Philip Morris, a company especially desperate for something to goose the top line. It spins off plenty of free cash flow that can be used to invest in the necessary infrastructure, and the company already has an army of sales reps who regularly visit retailers.

Philip Morris has a market cap of US\$151 billion and is on pace to generate approximately US\$5 billion in free cash flow for 2016. If it wanted to get big into the marijuana business in Canada, it could ... easily.

## The bottom line

The problem with both Philip Morris and Loblaw is they'll never be pure marijuana plays. Thus, any move into the sector won't have a huge impact to either company's results.

But at the same time, it's hard for this value investor to put his cash to work in a company like Canopy that has such a lofty valuation. It's not easy choosing the best way to invest in marijuana.

## CATEGORY

1. Investing

## POST TAG

1. Editor's Choice

## TICKERS GLOBAL

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