Canopy Growth Corp.: It's Good But This Other Growth Story Is Better

Description

Canopy Growth Corp. (TSX:CGC) is arguably Canada's greatest growth story.

It began production in late 2013, making its first shipment from its Smiths Falls factory the following May. In three short years, it's become a $1.3 billion market cap.

Almost as impressive is the progress of **Shopify Inc** (TSX:SHOP)(NYSE:SHOP), which launched its cloud-based commerce platform in 2006, but only started generating significant revenue growth in 2013, making the two companies' development eerily similar.

While Canopy has got a great growth story, I believe Shopify is the better of the two opportunities. Here's why.

Canopy just announced that it's buying **Mettrum Health Corp.** for $430 million, a deal that Fool.ca contributor Nelson Smith reminds investors gives the combined company almost 50% of the medical marijuana market in Canada and a huge lead over the rest of the 35 licensed producers in this country.

Give Canopy credit.

It bought Mettrum using an inflated stock price, a hallmark of legendary capital allocator Henry Singleton, who co-founded **Teledyne Inc.**, one of the most successful conglomerates in the history of United States business. Singleton managed to generate a 20.4% compound annual return for Teledyne shareholders during the 27 years he was CEO.

Canopy Growth shareholders can only hope for returns that good.

The fact is, Canopy is paying 25 times revenue to remove one of its major competitors from the marketplace. Time will tell if it's too steep a price, but certainly, it's taken the pole position in a race to own the recreational marijuana market should the federal government legalize it.

Turning to Shopify, I recommended in late October that investors not buy its stock at nine times sales because it isn't making money and won't be for some time. Well, Canopy is in the same boat, yet investors are willing to pay 48 times sales to own its stock.

Crazy is the only way to describe the feeding frenzy.

But what happens if the federal government changes its mind and doesn't legalize marijuana in 2017? That's a multi-billion-dollar market literally up in smoke, and with it, most likely, Canopy's stock price.

Shopify has no such problem.

Sure, margins are lower on Shopify's merchant solutions business, which accounts for 45% of its overall revenue, but the payments-processing capability helps keep merchants using the platform, says

Fool.com contributor Brian Withers.

As more merchants use the platform, Shopify generates recurring monthly subscription fees, along with the fees it collects from every sale their customers make using Shopify Payments. As its customers' businesses grow, so too does Shopify's revenue. Over the past three years, it has averaged annual revenue growth of more than 100%.

You can't help but like both companies, and, ultimately, both should be very successful.

However, successful investing is all about ensuring there's a margin of safety, both in terms of the valuation and business model.

Shopify is much cheaper to buy than Canopy Growth in terms of price-to-sales, despite exhibiting similar growth prospects, and it doesn't face a regulatory minefield in the years ahead.

Canopy Growth is good, but Shopify is better.

CATEGORY

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2. TSX:SHOP (Shopify Inc.)
3. TSX:WEED (Canopy Growth)

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