
# Forget About Canopy Growth Corp.: Buy These 3 Indirect Marijuana Stocks Instead

## Description

We've been saying the same thing on Motley Fool Canada for weeks now–possibly months.

**Canopy Growth Corp.** (TSX:CGC) is insanely overvalued.

It's obvious even after a quick inspection. Shares currently trade hands at $10.02 each, giving the company a market cap of $1.24 billion. That puts the company at 51.6 times revenue. Not earnings. Revenue.

The bottom line is currently negative with analysts projecting a very slight profit of $0.01 per share in 2017. That puts shares at more than 1,000 times forward earnings.

People are very excited about the legalization of marijuana in Canada, which is projected to happen sometime in 2017. Such a market could be massive; at least one estimate suggested Canadians would buy upwards of $20 billion worth of marijuana if the drug were legalized.

But to get access to that market, investors are forced to buy marijuana growers who are in bubble territory. That's not investing. That's speculating.

Instead, investors should look at stocks that will still benefit from legal pot–just not so directly. Here are three ideas.

**Loblaw**

At this point, we have no idea how the government will control the sale of legal pot. Will we be able to buy it at gas stations or grocery stores like cigarettes today? Or will the drug only be sold at special dispensaries like in the U.S.?

One Canadian retailer that looks poised to carry medical marijuana no matter what happens is Shoppers Drug Mart. The division of **Loblaw Companies Limited** (TSX:L) has already applied to Health Canada for a license to stock the stuff in its pharmacies. If this gets approved, Shoppers will be the first major pharmacy chain to carry medical marijuana.

There's another way both Loblaw and Shoppers can benefit from greater marijuana use. After smoking, many people will go to the snack aisle and load up on high-margin chips, chocolates, and other treats.

**Potash**

Like any plant, marijuana saplings need fertilizer. **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) is North America's largest provider of potash, which ultimately gets made into all sorts of different fertilizers.

There are a couple of issues with Potash, however. First of all, the company has proposed it will merge with **Agrium** to create a huge crop-input powerhouse. We're still waiting for regulatory approval on that deal.

And second, even if marijuana growing becomes a big deal in Canada, it's still going to take an awful lot of pot plants to really make an impact. Think about how much wheat, canola, and other crops get grown in Canada.

**Philip Morris**



I believe that **Philip Morris International Inc.** (NYSE:PM) will end up owning the marijuana business in Canada.

The company has been openly musing about the future of tobacco, its current business. CEO Andre Calantzopoulos recently told a British radio station he was looking forward to a "phase-out period for cigarettes." The company is currently testing safer products that heat tobacco just enough to produce a vapor without burning it.

Philip Morris is on pace to generate $7 billion in free cash flow in 2016. It could throw a billion or two at the Canadian marijuana market and barely miss it.

Philip Morris already has an army of sales reps and a distribution network that provides cigarettes to thousands of Canadian stores. It would be far easier for the company to just add marijuana products to its existing infrastructure than it would be for another company to build the whole thing from scratch.

**The bottom line**

These choices may not be popular for some investors because they're not a pure play on marijuana. Heck, Philip Morris hasn't even indicated publicly it's interested in the pot sector.

But these investments all offer something Canopy Growth Corp. doesn't, which is a margin of safety. If marijuana doesn't become the next huge growth market, all three of these companies won't miss a beat. They could very easily end up higher because of a multitude of different reasons.

To borrow a baseball analogy, it's better to go for a single than to swing hard for a home run, because sometimes you strike out.

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1. TSX:L (Loblaw Companies Limited)
2. TSX:WEED (Canopy Growth)

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**Date**
2025/08/26
**Date Created**
2016/12/09
**Author**
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