



Canopy Growth Corp. and Potash Corporation of Saskatchewan Inc.: 2 Peas in a Pod?

Description

I'm going to attempt to compare two drastically different companies in completely different industries with the goal of illustrating a point.

The businesses are commodity based, have concrete demand projections, and have supply regulation issues. They will have significant long-term volatility that's tied to how the industry deals with supply and demand.

In two of my recent articles, I named **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) as a great long-term play. I've also named **Canopy Growth Corp.** ([TSX:WEED](#)) as a company I would avoid long term. Interestingly, the short-term momentum and short-term consensus on each of these companies generally differs from my opinions of both.

Similarities

These companies have very interesting economics, and the stock prices and market capitalizations of each company are closely tied to industry fundamentals (i.e., supply and demand expectations, growth expectations) relating to the commodity prices of potash and cannabis.

Before the Financial Crisis, as growth expectations soared for potash consumption relating to the increased consumption of emerging markets, investors saw massive gains with potash stocks. Prices soared, and investors looked to cash in on the "pink gold" rush (pink is the colour of potash minerals), only to be disappointed by a significant correction that left investors shaking their heads.

With the newfound "green rush" in Canadian markets, investors are seeing similar results. Booming expectations for growth and legalization in Canada and across the world have led to ballooning valuations for early stage marijuana companies based on promises of growth and better margins in the future.

Taking a long-term view of company and industry fundamentals, we can see that, as commodity-based businesses, these companies will be competing on profit generation and consolidation. In Canopy's

case, the industry is still in its very early years, and, as such, I anticipate in a decade or two the industry will closely mirror that of the potash industry.

Differences

These companies are distinctly different entities in industries that are in different stages of maturity.

In the case of the potash industry, the players are well defined, and the industry has seen decades of consolidation with a limited number of players remaining in control of a large percentage of the North American and global potash supply. In fact, with Potash Corp.'s pending merger with **Agrium**, investors will see continued consolidation and an industry in which Potash Corp. will be able to influence potash prices further.

The company's Canpotex agreement with other (primarily) Canadian and U.S. potash firms essentially allows North American potash producers to influence the market price of potash in a similar way that OPEC affects global crude oil prices. Thus, Potash Corp.'s position and market size make it a stable name to take advantage of maximum profitability over the long term. In the short term, prices have been hit hard and are unlikely to rise substantially overnight; however, the long-term prospects for Potash Corp. appear to me to be much more lucrative.

In Canopy's case, as the largest Canadian cannabis producer currently, Canopy has seen its "first-mover" status largely priced in to its valuation. With other major competitors, such as **Aurora Cannabis Inc.**, building production with efficiencies that may turn out to be double that of Canopy, and other producers, such as **Aphria Inc.**, consistently holding better margins in the early years, my view is that competition and changes in the marijuana industry are unlikely to benefit Canopy in any way; rather, they are likely to hurt the company's valuation in the quarters and years to come.

Stay Foolish, my friends.

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1. TSX:WEED (Canopy Growth)

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