

How Valuable Is a First-Mover Advantage in Medical Marijuana?

Description

Canopy Growth Corp.'s ([TSX:WEED](#)) stock price has largely stabilized of late around the \$9-10 level after previously trading at a 52-week high of \$17.86. While Canopy's stock price had sustained very high levels of volatility for a long time until the beginning of 2017, over the past five months, investors have seen Canopy's stock price largely hover in the \$8-13 range; it's now trading within the lower limits of its five-month trading band.

Many investors seeking value in the marijuana space have looked at Canopy as a stock that has sold off to nearly 50% of its 52-week high, and they may be considering adding to an existing position or adding a new position to their portfolio based on expectations that cannabis-related stock prices will continue to rise. The rising tides that lift all boats higher should carry Canopy upward along with other names, such as **Aphria Inc.** (TSXV:APH) and **Aurora Cannabis Inc.** ([TSX:ACB](#)).

Divergence likely

Canopy was the first large cannabis producer at the party — the first to be listed on the TSX, the first to announce significant branding and marketing initiatives, and the first marijuana producer to hit the “unicorn” market capitalization level of \$1 billion in the Canadian medical marijuana market. With legalization expectations boosting demand expectations and increasing growth expectations to higher levels, Canopy has been the stock of choice as the “safest” pick of the bunch due to its market size and the liquidity of its shares compared with smaller firms such as Aphria and Aurora.

This view is starting to change as the market capitalization differences between Canopy and its main competitors, Aphria and Aurora, begin to narrow. As of market close Wednesday, April 26, Canopy had a market capitalization of \$1.44 billion compared to Aphria at \$770 million and Aurora at \$803 million. The increased valuations in both of Canopy's largest competitors occurred after each competitor announced a number of strategic growth initiatives aimed at catching and eventually making a run at exceeding Canopy in terms of market share and profitability.

In addition to domestic growth initiatives, acquisitions, and margin-boosting production capacity additions by Aphria and Aurora, both companies are not only listed on the newly established **Horizons Medical Marijuana Life Sciences ETF** ([TSX:HMMJ](#)) alongside Canopy, but they are actually listed *at higher percentages* in the ETF compared with industry leader Canopy. Aurora is actually the top holding in the ETF, encompassing 10.3% of the ETF, followed by Aphria at 9.3%, and finally Canopy at 9.1%.

Bottom line

In terms of production capacity, liquidity, and potential future free cash flow generation, Aphria and Aurora have come a long way in challenging Canopy for top spot in Canada's burgeoning marijuana industry. The first-mover advantage and large gap between Canopy and its competition has begun to deteriorate, and I expect the trend to continue into 2018 as the marijuana industry begins to mature.

Stay Foolish, my friends.

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2. TSX:HMMJ (Horizons Marijuana Life Sciences Index ETF)
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