Brookfield Infrastructure Partners L.P. and Canopy Growth Corp. Should Partner

Description

Last November, I suggested that **Philip Morris International Inc.** (NYSE:PM) should buy **Canopy Growth Corp.** (TSX:WEED).

My rationale was simple.

Big tobacco

Buying Canada's largest producer of medical marijuana would give the tobacco giant entry into the lucrative cannabis market while also regaining a greater presence in North America — something it lost when it was spun-off from **Altria Group Inc.** in 2008.

Nothing's come of my proposal, not even a rumour, but if Canopy wants to be a global player, it could do a lot worse than having a partner with serious experience manufacturing a government-regulated product and $7.2 billion in annual free cash flow.

I'm not the first person to suggest this, and I won't be the last.

A recent article in *The Globe and Mail* quoted Matt Shalhoub, managing director of Green Acre Capital, a $25 million investment fund focused on investments in the Canadian cannabis market. Its investors include former *Dragon's Den* panelist W. Brett Wilson.

"One of the key attractions is the prospect of consolidation and eventual takeovers of leading cannabis players by Big Pharma and Big Tobacco, as well as the inevitable arrival of Big Finance," *The Globe and Mail's* Brian Milner writes, paraphrasing Shalhoub. "Mr. Shalhoub says he wouldn't be surprised to see one of the tobacco heavyweights snap up a large Canadian producer in the next year or two and tap its experience to tackle other markets as they open."

Investors have an alternative

In the same article, Milner discusses alternatives to investing in publicly traded pot producers, which carry the risk of being on the outside looking in once production rises and prices fall.

“Pot isn’t much different from growing parsley,” one investor tells Milner. “You don’t really care who grows it. At the end of the day, it’s going to be about branding.”

First, this investor’s rationale is precisely why Philip Morris makes sense as a buyer of Canopy and other producers. It doesn’t grow its tobacco; it merely markets the finished product.

Second, it highlights the fact the real winners when it comes to the legalization of recreational pot are the various small businesses that will keep the industry growing.

Those are the companies to bet on.

Cannabis infrastructure isn’t cheap

Somebody’s got to own the grow facilities, whether they’re greenhouses, outdoor farms, or large reconfigured manufacturing plants, etc.

It’s far better for **Brookfield Infrastructure Partners L.P.** (TSX:BIP.UN)(NYSE:BIP) to own these properties than the producers themselves, whose capital could and should go toward marketing and R&D and other revenue-generating assets. As real estate owners get better at recognizing when producers are sniffing around for greater production, prices are going to rise dramatically.

Under this scenario, Brookfield would own the production facilities, someone else would manufacture the pot, and Canopy, like Philip Morris, would then buy the pot and turn it into various products, including marijuana cigarettes, oils, edibles, beverages, etc.

And hey, if none of this happens, Brookfield Infrastructure and Canopy Growth are still excellent investments.

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