



Canopy Growth Corp.: How Other Sin Companies Could Propel the Stock (and the Cannabis Industry) Much Higher

Description

Canopy Growth Corp. ([TSX:WEED](#)) skyrocketed 19% on Monday following the announcement that alcohol producer **Constellation Brands Inc.** ([NYSE:STZ](#)) will be investing \$245 million for a ~10% stake in Canopy. That's huge news — not just for Canopy, but for the entire cannabis industry as well as other sin stocks (beer and tobacco firms) that may be getting in on the action as we head closer to legalization day, which should be less than a year away.

Other Canadian cannabis producers such as **Aurora Cannabis Inc.** ([TSX:ACB](#)), **Aphria Inc.** ([TSX:APH](#)), and **MedReleaf Corp.** ([TSX:LEAF](#)) all soared ~4.5%, ~7.1%, and ~8.3%, respectively, as euphoria spread across the entire industry.

Sure, all cannabis stocks have a high degree of systematic risk, but they also have a similar magnitude of systematic opportunity. Although the Constellation investment has nothing to do with other cannabis producers, the general public is expecting similar investments from American sin stocks going forward.

Is the potential for massive gains outweighing the potential for losses?

In many recent pieces, I [strongly urged investors](#) to consider marijuana stocks like Canopy, as their upside potential was unlike anything that's publicly traded on the market today. I stated that most of the negative sentiment was already [in the rear-view mirror](#) and that going forward, the potential for positive developments outweighed the probability of further negative developments, especially since the political risks have died down a great deal compared with earlier this year.

After several developments, cannabis growth investing went from extremely high risk/high reward to high risk/extremely high reward. That's a good trade-off, but only for those with a high risk tolerance. Although the potential for positive developments now outweighs the potential for negative ones, an unforeseen negative development could still surprise us all, and bring huge losses for those who've invested later rather than sooner.

More sin firms could be interested in investing in Canadian cannabis producers

In a previous piece, I made bold claims, saying that Canopy could surge to \$20 by the end of 2017, and that the stock could triple from the \$11 levels by the time legalization day arrives. There's no doubt that such estimations were extremely bullish, more aggressive than most analyst expectations, and far-fetched at the time, but with positive developments mounting, I think it's completely realistic to see Canopy hit ~\$33 by Canada Day 2018.

The investment by Constellation Brands could spark a chain reaction of investments by other beer or tobacco companies to stay on even footing. Regardless of which cannabis producer receives the investment, all pot stocks stand to realize huge gains from such an announcement, especially if **Phillip Morris International** were to announce an even larger investment of its own.

Vahan Ajamian, an analyst at Beacon Securities, believes that the recent Constellation investment is a "game-changer" for the cannabis industry, and he "expect[s] more alcohol companies may look to accelerate plans to enter the industry — as well as pharmaceutical and tobacco companies."

Bottom line

The recent Constellation deal could be the start of many near-term developments that could lift all cannabis stocks to new highs. I still believe Canopy could hit ~\$33 by legalization, as developments, both industry-wide and company-specific, are released to the general public.

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