



Why Canopy Growth Stock Is the Only Cannabis Investment That Makes Sense Over the Long Term

Description

Canopy Growth Corp. ([TSX:WEED](#)) has been the [most resilient pot stock](#) in the most recent industry-wide correction (or hangover), falling at a lesser magnitude than **Aurora Cannabis Inc.** ([TSX:ACB](#)) or **Aphria Inc.** (TSX:APH). One could argue that Aurora and Aphria stock have been punished more severely because their respective management teams have made recent moves that are akin to shooting oneself in the foot.

It's not a mystery that Aphria and Aurora have been quite active at a time when cannabis stock valuations are [out of this world](#). After a parabolic upward movement in the latter part of last year, it appears that investors are rewarding inactivity, since no shareholder wishes to feel the effects of dilution.

In addition, in an environment where cannabis is nothing more than a commodity, all producers may be destined to trade in line with one another. That is until government regulations ease and become more open to branding, which I have no doubt would separate Canopy from the crowd thanks to its existing brand portfolio and management's branding prowess, which is far superior than that of the competition.

Snoop Dogg is a huge deal for branding if regulators decide to ease

Canopy can't use Snoop Dogg for now, but one can't rule out the potential to have him as a brand ambassador at some point down the road, when regulators have a chance to warm up to the nascent industry. A number of U.S. states where cannabis is legal allows for the branding of its products.

These brands, although seemingly more attractive to minors, will allow cannabis producers to command substantially higher margins and will allow for a better elimination of the [black market](#). As such, branding will only stand to move cash from the black market and into the wallets of the government and producers behind the brands — most notably, Canopy.

Furthermore, federal regulations, as they stand, are overly conservative (and inefficient), in my opinion, and are not at all good for producers, the government, or cannabis users. In time, however, I believe

such regulations will inevitably change such that branding will be allowed, then Canopy will surge above and beyond its competitors Aurora or Aphria because of its superior expertise on the branding front.

Canopy's branding expertise is a cut above the competition

Aurora and Aphria will invest in branding; however, Canopy will likely command the most dominant position in the branded cannabis space with Tweed and Snoop Dogg-branded cannabis products. As such, over the next decade, I see Canopy as the Marlboro of its industry.

Branding matters, and if you think regulators will eventually allow for it, Canopy is the only marijuana stock that should be on your radar. Aphria and Aurora stock will attempt to follow in Canopy's footsteps; however, I don't think they'll be as successful, though they could each capture a meaningful minority share of the pot pie.

Bottom line

Cannabis is a commodity today, and that implies a fixed price, rewarding producers who can produce the greatest amount of product in the most cost-effective way possible.

Over the long-term though, I think federal cannabis regulations will ease and the market, like those of the cigarette or alcohol industry, will allow for branding. That will allow for big producers to obtain a true durable competitive advantage over peers in the space.

While pot stocks are bubbly at these levels, if you're very keen on getting skin in the game today, I'd only recommend a partial position in Canopy. But only if you're a long-term investor who is willing to add to your position in the event of a catastrophic industry-wide collapse.

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