Why Canopy Growth (TSX:WEED) Might Not Be the Top Pot Stock for Much Longer

Description

Canopy Growth (TSX:WEED)(NYSE:CGC) has long been known as the top cannabis stock in the world, synonymous with the industry's growth. However, the hierarchy in the industry could soon be changing. At a market cap of more than $15 billion, Canopy Growth is certainly safe, in terms of market cap, as the top cannabis stock for the foreseeable future.

However, there's one company that's been making a name for itself south of the border as a formidable opponent, and one that could command significant market share in the industry. Recently, we learned that multi-state operator **Curaleaf Holdings** (CNSX:CURA) had acquired cannabis company Grassroots for an estimated US$875 million valuation. Throughout the past year, Curaleaf has been busy wheeling and dealing to expand its presence across the U.S.

Now, with Grassroots into the mix, Curaleaf is poised to become the largest marijuana company in the world, based on revenue. However, with a market cap of around $3.5 billion, it still has a long ways to go in rivalling Canopy Growth in terms of size. A big impediment for the company is certainly the illegality of cannabis south of the border.

Not only does that prevent Curaleaf from being able to list on major exchanges like the NYSE and TSX, but it also keeps many investors away from the stock in general. Until we see marijuana become legalized in the U.S. at the federal level, the illegality of it is always going to prevent Curaleaf from reaching a higher valuation. Trading on the Canadian Securities Exchange gives Curaleaf access to significantly fewer investors than would buy its shares if it was on the bigger exchanges.

What does this mean for cannabis investors?

Regardless of which firm is the largest in terms of market cap, what really matters is which one is the bigger brand overall. And here, Curaleaf is certainly in the pole position. Its acquisition of Grassroots will not only expand its revenues even more, but it's a strategic move in that it will give the company an easy way to expand into some key markets.

Curaleaf will be able to increase the presence it has from 12 states to 19. The deal will give the company access to both Illinois and Michigan, two states that have recently legalized recreational marijuana. Curaleaf is going to have a big advantage on Canopy Growth by being able to tap into some lucrative pot markets, and it could be just a matter of time before the company is rewarded with a higher valuation.

Bottom line

With the departure of CEO Bruce Linton, and Canopy Growth seemingly looking for a more conventional and conservative leadership style, it's hard to imagine a scenario where the company remains atop the industry. Curaleaf has already made a big name for itself, and it's continuing to grow in what's going to be a much bigger pot market than the rest of the world. U.S. pot stocks are going to see a lot more growth than their Canadian counterparts and could prove to be better investments over the long haul.

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