Why This Pot Stock Could Be a Better Buy Than Canopy Growth Corp.

Description

Canopy Growth Corp. (TSX:WEED) and other big pot stocks have focused on expanding their efforts globally, and that could be problematic. Managing operations in several parts of the world with many different suppliers and partners is difficult to do and something that will likely be new for much of Canopy Growth's staff. That could lead to a lot of redundancies and inefficiencies that will only further drag down the company's bottom line. Companies are getting overly excited about pot sales; instead of focusing and dominating the local market, they are already starting to spread themselves thin.

One company that isn't following that trend is **Hydropothecary Corp.** (TSXV:THCX), which is focusing its efforts on its home province of Quebec. The company recently secured a five-year agreement with the province that will see Hydropothecary provide the region's alcohol distributor with as much as 200 tonnes' worth of cannabis products. In the first year of the agreement, Hydropothecary will supply 20 tonnes, and that will eventually rise to between 49.5 and 54.5 by the end of the agreement.

In its release, the company claimed that this was the largest supply deal to date for recreational pot that the province had made. Quebec has signed agreements with both Canopy Growth and **Aurora Cannabis Inc.** (TSX:ACB), but the volumes are not as high as what Hydropothecary has been able to secure.

Company's expansion will facilitate further growth into other parts of the country

Currently, Hydropothecary is still in the middle of expanding its capacity, and by 2019 it expects to be ready to be able to supply other provinces with cannabis as well. The company is already in talks with several provinces, including Ontario and British Columbia. The problem is that by then other provinces might already be saturated with producers trying to sell products that it will be hard to find market share.

Why this sets the company apart from others in the industry

A big reason for the cannabis industry's incredible growth over the past year has been due to hype and expectations. However, Hydropothecary has something tangible that it can offer investors, and that's a significant supply deal in one of the country's largest provinces. The company's CEO Sebastien St.Louis correctly pointed out that "we're one of the few companies that can give visibility with great certainty on its revenue."

While it's nice to talk about how much growth we might see from the industry and how strong prospects are for companies like Canopy Growth and Aurora, Hydropothecary can assign a number to its expected growth and back that up, which makes the company more stable in the long run.

Why the stock could outperform Canopy Growth and Aurora Cannabis

There are a couple of reasons why Hydropothecary could yield investors stronger returns than giants like Canopy Growth and Aurora Cannabis could. The first is that the company's structured and methodical growth strategy will enable Hydropothecary to focus on sustainability and profitability rather than rapid expansion, which could lead to cash shortages and cause volatility.

The second is that by focusing on its regional market and becoming a dominant force there, the company could become an attractive acquisition target by larger companies looking to easily expand across the country. That could result in a big premium being paid for the stock, which could generate significant returns for its shareholders.

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