

The Only Cannabis Stock I Would Recommend Investors Consider Is a Newbie

Description

With cannabis set to be legalized mid-October, investors everywhere who have not already invested in this sector are looking for entry points in hopes of striking it rich as this “green rush” continues full steam ahead. While I remain fervently in the camp of folks who believe the valuations of cannabis producers make [absolutely no sense](#), I can understand the zest with which many believe in the underlying long-term argument. Instead of dissuading those from investing at these sky-high valuations, in this article I’m going to take a look at one cannabis producer who I believe is the “best of the bunch,” given future prospects and the fact that most producers are currently operating with negative earnings, making fundamental analysis a nightmare within this sector.

The Hydropothecary Corporation ([TSX:HEXO](#)) is a relatively new addition to the Toronto Stock Exchange, and with a valuation of less than \$1 billion (at the time of writing) is reminiscent of many of the Canadian cannabis giants who have grown to multi-billion dollar valuations in short order. With consolidation taking place at breakneck speed (and a number of deals in the [billion-dollar-plus range](#)), speculation as to the attractiveness of Hydropothecary as a takeover target may be warranted, given the company’s impressive operational performance to date.

Hydropothecary is based in Quebec, and has been touted as one of the leaders among its peers, with excellent production efficiency and production costs per gram of less than \$1, allowing this company to compete on cost against even the leanest outfits operating today. Additionally, because the company operates in Quebec, Hydropothecary is likely to be able to keep its costs of production low for the foreseeable future, given the low cost of electricity in Quebec relative to other jurisdictions in Canada.

On the supply chain side of the equation, Hydropothecary has done a good job of securing demand for its end product once legalization hits. The company has signed an agreement with Société des alcools du Québec, which will last five years and virtually guarantee 200,000 kilograms of cannabis sales in that province, leading many to believe that Hydropothecary has the inside track to potentially monopolize or own a significant chunk, of Quebecois demand right out of the gate.

Bottom line

I don’t like to speculate, and I’m a fundamental analysis guy, so I still won’t invest any of my money in the cannabis industry anytime soon. That said, for investors who must do so, take a look at companies like Hydropothecary instead of the over-hyped and over-valued big names out there.

Stay Foolish, my friends.

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