



Why These 2 Pot Stocks Will Outperform Their Peers

Description

Two up-and-coming cannabis stocks have been getting much attention on the Toronto Stock Exchange since earnings reports in August and September. **Fire & Flower** ([TSX:FAF](#)) started [heating the headlines](#) upon the announcement that **Alimentation Couche-Tard** had purchased a 9.9% stake in FAF along with stock warrants worth up to 50% ownership.

Meanwhile, **Supreme Cannabis** (TSX:FIRE) redeemed its peers on the latest earnings report on September 17. Supreme reported positive adjusted EBITDA for the quarter of \$3.2 million and an increase in net revenue of 90% from Q3 2019. More impressive, the young stock announced a 370% increase in total revenue to \$41.8 million from \$8.9 million in fiscal 2018.

Fire and Flower

Alimentation's strategic investment announcement with Fire and Flower is reminiscent of the deal between **Canopy Growth** and **Constellation Brands**. Like Alimentation, Constellation Brands also began its relationship with Canopy Growth with a 9.9% ownership stake with warrant options worth 50% ownership share upon exercise.

It is safe to assume that Fire & Flower's stock price will gradually appreciate as Alimentation exercises these warrants. Along with Fire & Flower's success, the value of Alimentation's shares will also increase. This is ultimately an intense match. The stock's price remains relatively unchanged since the announcement, but shareholders can expect capital gains in the next year upon continued [positive earnings reports](#).

The downside in Fire & Flower is its retail margins. Compared with other cannabis stocks, Fire and Flower's profit margin is negative. Alimentation, a profitable convenience store powerhouse, may be able to help Fire and Flower improve its retail margins and become more competitive. Alimentation has consistently set the benchmark for convenience margins in a challenging industry.

Supreme Cannabis

Supreme Cannabis announced fantastic earnings last week. Other cannabis peers have struggled to impress shareholders. **Neptune Wellness** and **Green Organic Dutchman** reported weak revenue and sales growth for the quarter ended June 30. As promised in its August earnings guidance, Supreme announced almost a 400% increase in net revenue.

Granted, the August guidance predicted up to a 449% increase in revenue for the quarter, but we can be forgiving toward a company that outperformed more expensive competitors. To compare, the Dutchman, which sells for \$2.65 per share, reported a low 20% increase in revenue of \$2.9 million for the quarter. Supreme Cannabis offers higher net revenue at a lower price per share of \$1.38.

Moreover, Supreme Cannabis has a particular focus on cost-of-sales reduction in the European e-commerce market. Last month, Supreme Cannabis announced the acquisition of Truerra, a cannabis e-commerce outlet operating throughout Europe. Even Alimentation's retail margins cannot compete with Supreme margins in e-commerce.

Foolish takeaway

Marijuana sounds like a risky investment for new investors, but it only carries some short-term risk. While it is true that some of the listed cannabis corporations may fail and die off the TSX in the next five years, there are some true winners in the mix.

Neptune Wellness and Green Organic Dutchman may be two of the failures. Fire and Flower and Supreme Cannabis are top stock purchase options for less than \$2 per share; you can't go wrong with these investments.

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1. Cannabis Stocks
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1. TSX:FAF (Fire & Flower)

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