



These Pot Stocks Have the Most Cash

Description

The cannabis industry is in turmoil. Since 2019, many marijuana ETFs are down more than 50%. Making matters worse, cannabis pricing is in a free fall. This shouldn't come as a surprise. At the start of the year, I stressed that no one is paying attention to the [number one risk](#) in the pot industry: commoditization.

Consider Washington State. In 2014, it became one of the first states to begin recreational cannabis sales. Prices hit \$23.00 per gram one month after legalization, when pot demand was just 100 kilograms per month. Over the next three years, demand skyrocketed to 8,000 kilograms per month. What happened to pot prices? They fell more than 80% to around \$4 per gram.

Every pot company is now forced to reckon with a flooded market. Demand continues to surge, yet pricing is widely expected to fall in-suit. As with any over-supplied market, producers will eventually correct the imbalance. Companies producing at a loss will exit the market, and those with competitive advantages will remain.

Yet this self-balancing period could last months, if not years. Having enough cash will be critical, especially considering that the vast majority of the industry has yet to turn a profit.

At the end of the tunnel, however, there's big promise. In a bear market, well-financed competitors often *strengthen* their businesses, as because they can afford to expand and optimize while others are struggling to survive.

More dramatically, they can acquire competitors at dirt cheap valuations. No one likes a bear market, but the strong not only survive, but also thrive when the downturn reverses.

If you want to own pot stocks that can use the current downturn to their advantage, take a close look at the two stocks below. Not only do they have industry-leading cash positions, but their size also grants them the ability to secure financing even if conditions worsen. Plus, they both have *secret weapons* that could make all the difference.

Cash poor industry

While the pot industry took in billions during the last IPO craze, many operators are now struggling. **Hexo Corp** is down to just \$170 million in cash. **Aurora Cannabis Inc** is only slightly better off, with \$320 million in cash.

Green Organic Dutchman Holdings Ltd and **Medmen Enterprises Inc** are struggling just to survive, with cash levels of just \$70 million and \$44 million, respectively.

Cronos Group Inc ([TSX:CRON](#))(NYSE:CRON), meanwhile, is a breath of fresh air. Last quarter, the company posted a cash hoard of \$2.4 billion, more than all of the previously-listed companies *combined*. That's thanks to a recent multi-billion dollar capital injection by tobacco giant **Altria Group Inc**.

Altria now owns as much as 45% of the company, with options to acquire Cronos outright down the road. At any point, the company can turn to \$100 billion behemoth Altria for more capital — a huge advantage as financing dries up.

It gets even better

Cronos isn't the only well-capitalized pot stock with a multi-billion dollar partner behind it. Last quarter, Canopy Growth Corp ([TSX:WEED](#))(NYSE:CGC) ended with \$3.2 billion in cash, even more than Cronos. That's largely thanks to its game-changing deal with **Constellation Brands, Inc.**, which was worth up to \$5 billion.

With its current pile of cash, Canopy Growth could acquire both Green Organic and Medmen Enterprises and still have \$2.1 billion in the bank. If the cannabis industry continues to collapse, don't be surprised if it makes an acquisition or two.

Even if an acquisition doesn't come to fruition, investors can know that both Cronos and Canopy have enough money to execute on their long-term growth plans. You can't say the same of the rest of the industry.

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