



Why Now Could Be a Great Time to Load Up on Cannabis Stocks

Description

Cannabis stocks are getting hit hard. Many of last year's biggest winners are now down 50% or more. If you've been waiting to load up on [pot stocks](#), this might be your best chance. That's because over the past year, the market has matured quickly. We now have a much clearer idea about which companies are set to succeed and which companies are doomed to failure.

The market finally seems to have sorted itself out. Here's how to bet.

The losers

Over the last few months, the market has made clear which cannabis companies won't be enjoying a bright and rosy future. Consider this quote from Bruce Linton, CEO of **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC):

"Did you buy cannabis or an outcome? You have to transform the ingredients, that's the business we are in right now ... By 2020 or 2021, there will be too much cannabis produced. If I'm still selling primarily an ingredient, I have completely dropped the ball."

What Linton is highlighting is the ongoing commoditization of cannabis. After all, there's not much differentiation between each company's production. The differentiation will come from the "transformation" of the ingredients.

That leaves companies like **Green Organic Dutchman** in a tight spot. While Green Organic is ramping pot cultivation quickly, it hasn't shown an ability to transform its products beyond a pure commodity. Organic pot gets a slight premium, but not much.

Think of **Coca-Cola Co.** All of the constituent ingredients, like sugar and water, are commodities. Yet Coca-Cola gets people to pay a significant premium to drink the transformed version of these ingredients. If the company was simply in the sugar and water business, it wouldn't be nearly as profitable. If you want to succeed in cannabis investing, find companies that can take commoditized pot

and turn it into a value-added product.

The winners

Companies like Canopy Growth and **Cronos Group** ([TSX:CRON](#))(NYSE:CRON) are ready to sieze the long-term cannabis opportunity. That's because both firms have partners capable of transforming the raw ingredients.

Last year, Cronos joined forces with tobacco giant **Altria Group**, which took a \$1.8 billion equity stake. Just take a look at what Altria has done over the decades. The underlying ingredients of tobacco are completely commoditized, yet the company earns above-average margins and has secured a leading market share in North America. That's because it knows how to build brands that customers feel intensely loyal to, like Marlboro.

Value-added products are largely branding plays. Right now, Cronos has a huge step on the competition.

Canopy Growth made a similar move by teaming up with brand behemoth **Constellation Brands**. If you've ever consumed Modelo, Corona, Svedka, or Robert Mondavi wine, odds are you've given Constellation some of your money. That's because it owns the distribution rights for dozens of iconic brands.

This company literally knows how to turn water into wine, making it the ideal parter for Canopy as it figures out how to turn raw cannabis into a high-margin, differentiated product. When it comes to branded cannabis consumables — a market segment that could end up much larger than raw cannabis — Canopy Growth has a huge lead.

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. Cannabis

TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. NASDAQ:CRON (Cronos Group)
3. TSX:CRON (Cronos Group)
4. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise

5. Yahoo CA

Category

- 1. Cannabis Stocks
- 2. Investing

Tags

- 1. Cannabis

Date

2025/08/24

Date Created

2019/10/25

Author

rvanzo

default watermark

default watermark