



## This \$520-Million Pot Stock Is Now Too Cheap to Ignore

### Description

Demand for legal pot continues to climb to new heights. Investment bank **Cowen Inc** has raised its 2030 sales forecast from \$75 billion to \$80 billion, only to bump it *again* to \$85 billion last November.

Globally, several analysts are now expecting sales to peak above \$200 billion. If adjacent markets are any indication, even these rosy estimates could prove overly conservative.

Global alcohol sales surpass \$1.4 trillion, while annual cigarette sales are above \$900 billion. It wouldn't be a huge surprise to see cannabis demand ultimately reach these levels.

Despite optimism for demand, the 2019 pot bear market crushed nearly every cannabis stock. Marijuana exchange-traded funds (ETFs) have been cut in half since their summer highs.

These opposing dynamics have created a once-in-a-lifetime opportunity for both growth *and* value investors.

The following stock, now valued at just \$520 million, is expected to *triple* sales over the next 12 months. Due to its relatively small size, however, the market has assigned this company a bargain valuation. This stock is simply [too cheap](#) to ignore.

### Play the game right

Now that the cannabis market has matured, we can get a grasp on how investors are able to take advantage.

Some companies are focused purely on growing cannabis. These stocks are best avoided. As with any other commodity, pricing pressures will surely come.

Last summer, for example, **Tilray** stock slumped after pricing fell by more than 20%. Over the following weeks, the industry sank as pricing fears mounted. Companies that only produce commoditized pot face a difficult future.

Other companies are growing pot *and* creating value-add products to woo consumers. Ideally, these firms want to create trusted brands that instill customer loyalty — a strategy straight out of **Coca-Cola Co's** playbook. If you can create brand loyalty, you can maintain industry-leading margins for decades to come.

Unfortunately, creating a beloved brand from scratch is difficult. It's why Coca-Cola has been the number one global soda for our entire lives. Owning a leading brand is one thing, but inventing one is a completely different ballgame.

One pot company realized a shortcut to the equation. Rather than building its own brands, it's leveraging the loyal fan bases of existing brands. This strategy, above all others, has the potential to create *billions* in shareholder value.

## This is your best bet

**HEXO Corp** ([TSX:HEXO](#))(NYSE:HEXO) is building the first cannabis *platform*. Instead of building everything itself, it's simply providing the basic infrastructure, trusting other companies to launch brands that pot consumers love.

THC-infused beverages, for example, hold the potential to double or triple global cannabis demand. Rather than creating a beverage brand out of thin air, Hexo partnered with **Molson Coors Canada Inc.** ([TSX:TPX.B](#))([NYSE:TAP](#)) to co-create pot-based drinks. This month, their first products should hit the shelves.

It's a good bet that Molson-branded products will outsell competition from unknown brands. I'm also willing to bet that pot-based cosmetics from **Estee Lauder** and cannabis medicines from **Johnson & Johnson** would best any pot-specific brand.

This is exactly what Hexo is banking on. This year, it wants to forge additional partners across new categories such as edibles, sleep aids, cosmetics, and more.

Hexo's strategy is under-appreciated, especially given that its market cap is only hovering around \$500 million. As these partnership deals gain traction, it has a shot at becoming one of the most valuable pot stocks on the market.

### CATEGORY

1. Cannabis Stocks
2. Investing

### POST TAG

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## TICKERS GLOBAL

1. NASDAQ:HEXO (HEXO Corp.)
2. NYSE:TAP (Molson Coors Beverage Company)
3. TSX:HEXO (HEXO Corp.)
4. TSX:TPX.B (Molson Coors Canada Inc.)

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