Why Did Supreme Cannabis (TSX:FIRE) Stock Drop 70%?

Description

Supreme Cannabis Company Inc (TSX:FIRE) was once on top of the world. At the start of 2018, it was a billion dollar company. Investors were rushing in to take advantage of the emerging cannabis boom.

Then, everything changed. With a current valuation of just $195 million, Supreme Cannabis risks falling off the radar completely. The rapid deterioration of shareholder value may permanently scare off potential funders.

Meanwhile, pot sales continue to *exceed* expectations. Globally, this is still expected to be a $250 billion market. Considering tobacco is a $1 trillion market, the ultimate size of the cannabis market could still outpace even the rosiest forecast.

Why is Supreme Cannabis stock cratering despite impressive end-market growth? Could this be an ideal contrarian stock pick?

default watermark

Understand what this is

Not all cannabis companies are the same. To understand this opportunity, you have to analyze Supreme Cannabis's specific strategy for growth.

According to the company, "Supreme Cannabis has emerged as one of the world's fastest-growing, premium plant driven-lifestyle companies by effectively deploying capital, with an emphasis on disciplined growth and high-quality products."

Well, not much insight there. You could substitute its name in that description with any one of its competitors and it would still hold true. What is *actually* different about Supreme Cannabis?

"With our initial approach, we built a distinguished premium brand, a scaled cultivation facility and developed unique regulated-industry expertise," the company continues. Yet again, there's not much differentiation here. Essentially every cannabis company has built grow facilities, attained expertise in regulated markets, and launched branded products.

Herein lies the issue: Supreme Cannabis can't separate itself from the pack. Sure, revenues are growing — up 349% year-over-year to $41.8 million — but where will the company be five years from now?

Fighting the tide

Supreme Cannabis reminds me a lot of another pot stock, **Green Organic Dutchman Holdings Ltd** (TSX:TGOD). In 2018, TGOD shares were above $8. Today, they're below $1, another example of a

$1 billion cannabis company collapsing under its own weight.

The two companies have more in common than just share price movement. Namely, they're in a crowded market with few partners.

Cronos Group Inc, for example, has the backing of $100 billion tobacco behemoth **Altria Group Inc**. **Canopy Growth Corp** counts distribution giant **Constellation Brands Inc.** as one of its biggest shareholders. **Hexo Corp** forged a joint venture with **Molson Coors Canada Inc**.

These partnerships are critical for funding and credibility purposes, but they also allow these competitors to leverage existing brands that customers already know and love.

As commoditization continues to take hold, and selling prices for raw cannabis plunge, inculcating a sense of brand loyalty will be crucial. Cronos may soon launch Marlboro-branded products, while Hexo is releasing Molson-branded cannabis beverages early this year.

Would you bet on Supreme Cannabis beating these established brands with its own upstart products? It's not likely, meaning the company's long-term source of profits will stem from growing and selling commoditized marijuana. If that's the case, it will be hard for the company to prevent profit margins from eroding completely.

default watermark

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. Cannabis

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Cannabis Stocks
2. Investing

Tags

1. Cannabis

Date
2025/08/25
Date Created
2020/01/17

Author
rvanzo

default watermark

default watermark