



Top Pot Stocks for the Next Generation of Cannabis Products

Description

It's time for a new chapter in [pot investing](#).

In 2018, cannabis stocks soared as the market rushed to take advantage. Last year, the tides turned, as valuations came down from nosebleed levels. In 2020, the story will evolve again, even if few investors are prepared.

The biggest shift will be a newfound appreciation for novel cannabis form factors. In previous bull runs, capital was infatuated with conventional pot production, which mostly included dry flowers. The next bull run will be fueled by value-add products like beverages, edibles, vapes, medicines, and more.

Many cannabis stocks are *not* ready to take advantage of this emerging opportunity. In fact, most are still focused on ramping raw cannabis production — a strategy that will experience heavy pricing pressure this year.

Value-add pot products could ultimately double or even triple the value of the global cannabis market. Want to get direct exposure before other investors come flooding in? The following picks are your best bets.

The road less traveled

Read up on nearly any pot stock, and you'll find the same strategy: ramp cannabis production as quickly as possible and then roll out new brands to woo customers. You should be very leery of this model.

First, while it's a bit different than tomatoes, cannabis is still just a crop. It's not terribly difficult to grow. Yield rates and economies of scale can be tinkered with, but, despite what most companies claim, there will be a race to the bottom for pricing. This is what happens when every company believes that they can grow more cheaply than the competition.

Hexo ([TSX:HEXO](#))(NYSE:HEXO) is avoiding the hassle of building its own brands to preserve pricing

power. Instead, it's outsourcing the entire process to existing brands that consumers already know and love. Its partnership with **Molson Coors Canada** is a perfect example.

Molson sold more than \$2 billion in beer last year to Canadian consumers, giving it the largest market share in the country by far. It's fair to say that Canadians love Molson. That's why Hexo co-developed a cannabis-infused beverage directly with Molson. With pre-established trust and loyalty, these products should take the market by storm.

The Hexo-Molson products will hit shelves this month. It's an ideal situation for both companies. Hexo can leverage Molson's brand power, while Molson can outsource all of its cannabis production and processing. In 2020, expect Hexo to gain sales traction and attract new partners for other value-add cannabis verticals.

Playing the long game

Canopy Growth took a similar route to Hexo, tying itself to one of the largest alcohol distributors in North America: **Constellation Brands**. With powerful brands like Corona, Robert Mondavi, and Modelo, Constellation has a proven track record of turning commoditized ingredients into high-margin consumer products.

With its cash hoard and powerful partner, Canopy should ultimately release value-add products across multiple categories. Its facility in Smiths Falls is producing cannabis-infused chocolates, with additional products planned. It's developed a proprietary process that distills whole-flower cannabis into a clear liquid for beverage manufacturing. And it has already designed a line of vape pens and vape cartridges.

Due to R&D requirements, it will take more time to get value-add products to market, but when pricing power is affirmed, expect analysts and institutional investors to flock to these names.

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rvanzo

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