This Pot Stock Could Benefit From a Recession

Description

While the coronavirus collapse has hit the market hard, one pot stock could actually *gain* from the turmoil.

When cannabis stocks were surging in 2018, investors were expecting growth across the board. By 2019, most companies had seen their valuations fall by at least 50%.

Many marijuana producers were building grow facilities for the first time, and revenue forecasts turned out to be riddled with delays and disappointments. By the end of last summer, large producers like **Tilray** were reporting that pricing was falling off a cliff.

Pot stocks were hurting in 2019, and the coronavirus pandemic of 2020 has made matters worse. Access to capital is drying up quickly. Firms with long-promise promise are now grappling with devastating short-term challenges.

One pot stock can rise about the bear market and succeed where others are failing.

Here's the problem

To be clear, demand for cannabis continues to rise. **Cowen Inc**, one of the leading firms covering the pot sector, believes demand in the U.S. alone will hit $80 billion by 2030. That's an estimate it's needed to raise *several times* over the past 24 months. Canadian demand has also surprised. By 2025, it's expected to approach $8 billion per year.

The problem isn't demand, it's supply.

In 2018, investors were enamored with pot. What they didn't realize was that cannabis is a lot closer to tomatoes and corn than you'd think. At the end of the day, they're simply crops, with few barriers to entry.

By the start of 2019, every pot company on the planet had immense plans for production growth. This should have sent alarm bells ringing in investors' ears. Commoditization had arrived.

Pricing has continued to fall as industry supply ramps. This problem won't get better anytime soon. The coronavirus has complicated matters even more. Pot stocks in early stages of growth will find it difficult to fund their expanding operations. Incoming cash flow remains low, so this is a dire challenge.

But one pot stock has the chance to capitalize.

Traditional companies like **Coca-Cola Co** and **Anheuser Busch Inbev** are still interested in exploring cannabis-infused products. The downturn, however, likely limits how much capital they want to bet. That's a terrific situation for **Hexo Corp** (TSX:HEXO)(NYSE:HEXO).

Pick this pot stock

Hexo's business model is perfect for this environment. Most pot producers decided to ramp production as quickly as possible, formulating their own brands to sell to consumers. As commoditization hits, branding will be the best way to prevent price erosion.

But ask yourself this: what are consumers more likely to buy, a pot product from an established brand like **Molson Coors Beverage Co**, or a pot product from an unknown cannabis start-up? Hexo is betting on the former.

Rather than doing everything itself, Hexo simply built the underlying infrastructure, including grow facilities, research and development departments, and packaging and distribution centers. It then partners with larger brands that consumers already know and love. Molson Coors was actually one of its first partners.

It's a win-win situation. Hexo can launch branded products with globally recognized names. The partners, meanwhile, don't need to invest hundreds of millions of dollars to scale their own pot operations.

While pot demand is on the rise, capital is drying up. That's a perfect scenario to enable Hexo to attract additional Fortune 500 partners and capture market share with trusted products that have existing brand loyalty.

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