



## This Pot Stock Just Soared 200% and it's Not Done Yet!

### Description

Most folks have thrown in the towel on the cannabis trade.

The pot bubble inflated before nationwide legalization, and it burst violently post-legalization. As I predicted in many pieces, the pot trade left many holding the bag, as expectations looked to be reset. Indeed, the “Cannabis 2.0” tailwind doesn’t look like it’s going to move the needle anymore, with shares of major licensed producers (LPs) such as **Aurora Cannabis** now down over 90% from all-time highs.

It seems as though the speculative crowd that chased Bitcoin and cannabis stocks have now moved to where the momentum is at right now: expensive tech stocks that are riding high on pandemic tailwinds. And while there’s no telling when or if the cannabis trade will heat up again, I think it’s a wise idea for young investors to nibble away at some of the battered bargains in the pot space.

The LPs are still quite tricky. They’re plunging into the abyss, seemingly by default, with no bottom in sight. Cannabis, which is a commodity (I’m sure pot bulls would argue otherwise), is probably going to continue falling to better compete with the black market over the next few years. And that doesn’t bode too well for the margins of the LPs. Cannabis consumption will likely remain consistent, so I see no tailwinds that could drive pot prices higher, at least over the medium term.

## A pot partnership that could pay big dividends

While I am a fan of Aurora as a speculative bet on a rebound, I’m an even bigger fan of cannabis retailers, a pot sub-industry where I think the puck is headed next.

**Fire & Flower** ([TSX:FAF](#)) stock is up nearly 200% off its March lows, and I think shares are just starting to heat up. Not only is Fire & Flower a premier retailer that’s trying to find a spot with millennials by drawing on the “experiential” factor, but the company has **Alimentation Couche-Tard** standing in its corner with a vested interest, deep pockets, retail expertise, and, most recently, an Alberta pilot project that could act as a launchpad for the still relatively unknown cannabis retailer.

Depending on where you live, you've probably noticed that the cannabis retail scene is getting pretty crowded. You've got many firms popping up, offering a slew of compelling new cannabis products, including the hottest new vapes from various big-name LPs. The cannabis retail scene looks pretty commoditized, like the cannabis commodity itself. But with Couche-Tard on its side, I think Fire & Flower has a durable competitive edge over the competition.

The Couche-Tard-Fire-and-Flower pilot project in Alberta will see Fire & Flower co-locate with Circle K's. In theory, Circle K, which sees a tonne of traffic, may see some of its customers also shop at the adjacent Fire & Flower location to pick up cannabis with their convenience store haul.

Couche-Tard can't sell cannabis within its convenience store, but it can co-locate with a licensed cannabis retailer. And as regulatory hurdles come down over the years, one can't help but think that the walls separating the two establishments will come down, and Couche-Tard will end up gobbling up a majority stake in the budding pot retailer.

## Foolish takeaway

I view the Fire & Flower pilot venture as a [low-risk](#) growth initiative that could pay massive dividends at some point down the road. FAF stock is up over 10% on Thursday and 200% from its March bottom, yet the stock still trades like a value investment at 2.1-times sales. I'd pounce on Fire & Flower while it's still a little-known \$137 million company before others have a chance to catch on and bring its valuation to where it ought to be given the magnitude of growth on the horizon.

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