



Here's a Sneaky Way to Bet on a Cannabis Comeback!

Description

You probably haven't heard of cannabis stocks in a while following their underwhelming performance in the post-legalization environment. Many hot pot stocks like Aurora Cannabis have now lost over 90% of their value, but don't say you weren't warned, as I urged investors to sell out of the bubbly industry before legalization day over unrealistic expectations.

My thesis was that cannabis prices would fall as supply increased with the number of licences and would remain depressed to better compete with the black market. I also warned that the "Cannabis 2.0" catalyst would likely not be enough to move the needle, as pot stocks looked to deflate and fall into a hangover.

Today, most pot stocks are a multitude lower than where they were leading up to nationwide legalization. Speculators and momentum chasers have moved on to [hotter things](#) (such as pandemic-resilient tech stocks), and valuations are the most depressed they've been.

Don't throw in the towel on the pot space just yet

Despite the lack of momentum, [Robinhood traders are still holding onto their cannabis shares](#), because they know the heat could return to the pot space at the drop of a hat. Like after the dot-com bust, there were bargains galore for those with long-term investment horizons. There's still compelling room for growth and sustained profitability as the cannabis market continues to mature. And the price of admission to a name like Aurora seems too good to be true, with shares trading at a massive discount to book value (0.4 times book at the time of writing).

Given the wild volatility, pot stocks may not be for everyone. So, for those who'd rather not deal with wild swings based on near-term news, there is an outlet to get into the budding industry.

Sneaky (and more prudent) ways to play cannabis retail

Consider **Alimentation Couche-Tard** (TSX:ATD.B), the convenience store kingpin that we as

Canadians all know and love. The company is keen on getting into the cannabis market, and with its recently upped stake in pot retailer **Fire & Flower** ([TSX:FAF](#)), Couche is likely contender to be a dominant force in cannabis retailer over the next decade and beyond.

The co-location pilot project launched by Couche-Tard and Fire & Flower could pay huge dividends over the long term. And if it doesn't work out, there's really nothing much to lose for Couche-Tard, which continues to sustain high double-digit growth numbers thanks to its high-ROE growth-by-acquisition model.

I think the Couche-Flower partnership will be a tremendous success, though, as the two retailers look to form a symbiosis. Couche could benefit from increased same-store sales, as Fire & Flower shoppers look to get munchies with their weed at the adjacent Circle K and vice versa. Indeed, Couche-Tard is a stealth play on cannabis, and I don't think the current valuation fully reflects the potential earnings boost that Couche-Tard's prudent foray into the cannabis retail scene could provide.

"With our close relationship with Couche-Tard including our co-located pilot stores, our path towards positive operating EBITDA, the removal of near-term debt maturities and a continued strengthened cash position to fund store expansion, we are positioned as a leader in Canadian cannabis retail." said Fire & Flower CEO Trevor Fencott.

Should cannabis consumption pick up amid the Cannabis 2.0 tailwind, Couche-Tard and Fire & Flower will both benefit, with less sensitivity to underlying pot prices relative to licensed producers. So, if you want to bet on cannabis without running the risk of suffering a hangover, Couche and Flower, I believe, look like great investments relative to the cannabis producers themselves, which I view as nothing more than commodity producers.

Foolish takeaway

I think Fire & Flower has a durable competitive edge over the competition with the deep-pocketed expertise-rich Couche-Tard standing in its corner. If you're looking for a sneaky way to bet on a cannabis comeback, both Couche-Tard and Fire & Flower are terrific bets right now while their stocks remain cheap. Couche-Tard and Fire & Flower shares currently trade at 0.7 and 2.6 times sales, respectively.

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