



This Is the Only Cannabis Stock Worth Owning Right Now

Description

Cannabis stocks roared in 2018. Millionaires were minted nearly overnight.

The bear market of 2019 tempered expectations, but there could be another huge spike on the horizon.

This time, not every cannabis stock will rise. We've learned a lot of lessons about what works and what doesn't since 2018.

If you want to join the action, there's only one clear option.

This is what works

Growing marijuana sounds exciting, but it's really not. At the end of the day, cannabis is just like any other cash crop. It's largely a commodity, no different than potatoes or corn.

This is what the market didn't realize in 2018 when it sent industry valuations soaring. Every company promised to ramp marijuana production aggressively. Investors thought they would get rich by owning huge inventories of weed. Then the reality of commodity pricing hit.

Commodity pricing is simple. When demand rises, prices rise. When demand falls, pricing falls. But there's another side of the equation, too. When supply rises, prices fall. When supply falls, prices rise.

This is pretty simple to understand, but investors were too blinded by the excitement of legal cannabis in 2018 to spot the similarities.

As companies ramped production, prices inevitably fell. Even worse, producers figured out how to lower their growing costs. That pushed down pricing even more.

“All-in cost of goods sold were \$0.65 per gram in Canadian currency. That’s down meaningfully from approximately \$1.35 in Q1 and works out to \$0.82 for the first half of the year,” [noted Village Farms’s](#) CEO in 2019. The company cut production costs in half in fewer than 12 months!

If you sell raw cannabis, it’ll be a race to the bottom. That rules out most marijuana stocks. The companies that are left are where you want to pay attention.

My top cannabis stock

To profit from this industry, you need to identify companies like **Coca-Cola**, which sells commoditized ingredients at a premium price simply by packaging them in a certain way.

If you want to own the Coke of cannabis, there’s only one choice.

HEXO ([TSX:HEXO](#))(NYSE:HEXO) is not like the competition. This company isn’t trying to ramp production as quickly as possible. Instead, it’s focused on value-add products, just like Coke.

For example, HEXO is co-producing THC-infused drinks with **Molson Coors**. This could be a multi-billion-dollar category. Ask yourself which product consumers will flock to: a cannabis beverage made by Molson or one sold by an unknown pot startup. HEXO is betting on the former.

The company has a whole lineup of value-add products, including edibles, vapes, and topicals, with more on the way. The best part is that this approach finally appears to be paying off.

“We have a lot of work to do, but the good news is that our revenues are growing,” HEXO’s CEO [said](#) on the latest conference call. “Our yields and volume sold have improved. Our normalized gross margin is healthy, and our costs continue to come down. Our adjusted EBITDA loss improved materially in the fourth quarter.”

Cannabis demand continues to rise, but most producers haven’t cracked the code of creating value-add products with superior margins. HEXO has a heavy lead, and recent data suggests there could be a turnaround relatively soon.

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