



Cannabis Stocks: Outlook for 2021

Description

As far as growth investments go, tech stocks tend to be the ones most investors hone in on. At least, that's been the case of late.

However, the cannabis sector has also proven itself to be an area of focus for investors hoping for long-term growth. Unfortunately, pot stocks haven't performed quite as well as their tech counterparts during the pandemic. But other catalysts such as expected U.S. Federal cannabis legalization are once again driving cannabis stocks higher.

Additionally, in Canada, domestic growth in cannabis sales has started to pick up of late. This has been perhaps the biggest catalyst for domestically-focused Canadian pot stocks. Here are two companies I think investors bullish on cannabis ought to consider in this space right now.

Marijuana stocks are getting high on growth

Canopy Growth ([TSX:WEED](#))(NYSE:CGC) and **Hexo** ([TSX:HEXO](#))(NYSE:HEXO) are reaping the benefits of growth in Canadian pot sales to a greater extent than many of their peers.

Why?

Well, these two companies are big players in the domestic Canadian cannabis market. Additionally, they're showing the kind of growth investors are expecting via rising cannabis sales domestically. These growth rates have exceeded my expectations of late, due to slower rollouts of government-run cannabis stores domestically.

Hexo reported a doubling of revenue this past quarter. The company brought in in \$33 million this past quarter, a jump of \$17 million year over year. Indeed, it is the seventh quarter in a row the company has reported positive adjusted EBITDA. This growth was partially driven by Hexo's non-beverage recreational marijuana sales increase of 6%. Additionally, Hexo also announced its acquisition of Zenabis Global, earning its access to the European market for medical cannabis.

On the other hand, Canada's domestic market leader in the cannabis space, Canopy, is making progress with nearly 25% growth in its last quarter. It also has a line-up of nine cannabis-infused beverages. The company's strategic cost-cutting measures has improved production efficiency drastically and reduced its cost of goods sold by 65% and SG&A by a massive 41%. Canopy predicts a reduction of nearly \$150 million in production and logistics costs over the next business year.

Who is slowing down the cannabis trade?

Despite otherwise sunny results, there are some clouds hovering above the performance metrics of the Canadian pot market, courtesy of this pandemic. With the Ontario Cannabis Store reducing incoming deliveries to curtail COVID-19 transmission, expectations are that pot sales could grow slower than anticipated, at least over the near term.

Although many investors are still unsure of the level of impact from this catalyst, there's certainly reason to believe that Canada's top pot producers could show slower growth in the upcoming quarter or two. Monthly gains aside, investors are pricing in near-term headwinds into pot stocks today. After all, these securities are perfectly priced in a high valuation market.

Bottom line

Domestic Canadian players like Canopy and Hexo are intriguing if one believes these companies can maintain their market share in Canada.

Right now, I don't see U.S. legalization as a real catalyst for these stocks. That said, in their home market of Canada, I think these companies will do fine. Investors will undoubtedly pay close attention to these companies' earnings in the coming quarters, so I expect more volatility on the horizon.

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TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. NASDAQ:HEXO (HEXO Corp.)
3. TSX:HEXO (HEXO Corp.)

4. TSX:WEED (Canopy Growth)

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