



Philip Morris Could Pour Gasoline on the Red-Hot Cannabis Sector

Description

Philip Morris ([NYSE:PM](#)) was all over the news following its release of its first-quarter earnings. Accordingly, the buzz managed to push its stock to hit a three-year high.

However, that is not my focus today.

Rather, I will discuss this cigarette maker's recent decision to hop on the cannabis train.

Here's what I think entering the pot market could mean for the company and the sector.

Could the beyond nicotine strategy play out well for Philip Morris?

The maker of Marlboro is now open to expanding its portfolio. The company is looking at making a big investment in the cannabis space. Indeed, diversifying the company's revenue streams away from harmful cigarettes seems like a good idea.

In fact, Philip Morris' peers have already engaged in similar deals. **British American Tobacco** recently [made a deal](#) with **OrganiGram** ([TSX:OGI](#))([NASDAQ:OGI](#)) that has taken these stocks on an interesting run of late. Accordingly, Philip Morris' move seems to be aligned with where this sector is heading.

Indeed, I'm of the belief that this move beyond nicotine could be fruitful for Philip Morris. However, I also think this move could have tertiary effects on Canada's cannabis sector.

One of the key reasons for the run-up in the stock prices of cannabis companies has been M&A activity in the past. This activity has died down significantly of late. However, as more potential deals come to the table, cannabis stocks could once again regain momentum.

Now, this is all speculation at this point. The cannabis sector remains in its infancy relative to other sectors. However, I think this move could spark further deals on the horizon should a deal come to

fruition in the near- to medium-term.

Bottom line

The cannabis sector has shown tremendous growth in the last couple of years thanks to rampant legalization of pot in Canada. Expectations of legalization south of the border have driven an already red-hot market forward.

For companies like Philip Morris looking to make deals, this isn't necessarily a good thing. However, for cannabis investors, increased interest in the sector could drive valuations on a nice run again.

It's important to reiterate that most cannabis stocks remain highly speculative investments today. Because of a lack of earnings, these stocks are difficult to value on a fundamental basis. Accordingly, investors need to remain cautious with such investments today. Sizing positions appropriately and keeping a well-diversified portfolio are as important as ever.

However, I think the direction Philip Morris is taking echoes a major shift in how this sector is viewed among the public. That's a good thing right now for cannabis investors.

CATEGORY

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TICKERS GLOBAL

1. NASDAQ:OGI (OrganiGram)
2. NYSE:PM (Philip Morris International Inc.)
3. TSX:OGI (OrganiGram)

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