



## Hydroponthecary Corp. (TSX:HEXO): A Small Weed Stock With Big Upside Potential

### Description

When you think about pot stocks, the names **Canopy Growth Corp.**, **Aphria Inc.** and **Aurora Cannabis Inc.** probably spring to mind, as they are the three largest Canadian marijuana companies and are widely covered.

Let me present another pot stock that began trading on the TSX on June 22 that's worth a look: **Hydroponthecary Corp.** ([TSX:HEXO](#)).

#### A small pot producer with big ambitions

Hydroponthecary is Quebec's largest medical marijuana producer. The company is much smaller than Canopy Growth, Aphria and Aurora, with a market capitalization of around \$1 billion. But Hydroponthecary wants to gain market share and eventually become one of the world's two largest marijuana companies.

The pot producer is on the lookout for acquisitions in an industry that is consolidating quickly. The company is targeting licensed producers who have supply contracts with buyers in other provinces, or companies that offer advanced technologies to develop new cannabis-based products. Hydroponthecary is also interested in expanding in the United States and Europe.

The company offers four product lines. Two of these lines consist of dried cannabis buds: Time of Day, their signature line, and H2, their classic line.

For people who don't want to inhale cannabis smoke, it has developed two innovative and smoke-free product lines: Elixir, a sublingual spray of cannabis oil, and Decarb, an orally activated cannabis. These two products won awards for Best New Cannabis Product at the Canadian Cannabis Awards gala last year.

#### Increased production in preparation for the recreational market

The Gatineau-based company reported its fiscal 2018 third-quarter results last week. Its revenue

increased 5% to \$1.2 million compared to the same period a year earlier, and its revenue per gram increased to \$9.24 from \$8.62, the highest in the industry.

The cash cost of dried cannabis sold per gram was \$0.88, a decrease of 57% compared to the third quarter of fiscal 2017, making it one of the country's [lowest-cost producers](#).

The company had cash and short-term investments of \$248.9 million as at April 30 and no debt on its balance sheet.

Loss from operations was \$2.65 million in the third quarter, compared to \$1 million for the same quarter a year earlier. The increased loss from operations is due mostly to higher expenses incurred by the company to expand its operations in preparation of the legalization of the cannabis recreational market.

Hydrothecary incurred a net loss of \$1.97 million or \$0.01 per share in the quarter, compared to a net loss of \$11.81 million, or \$0.17 per share a year ago.

The Quebec company currently operates with 300,000 square feet of production capacity and will expand its greenhouses by 1 million square feet by the end of the year. These expansions will increase its cannabis production from 3,600 kg to 108,000 kg per year.

In April, Hydrothecary signed a five-year agreement to supply the Société des alcools du Québec (SAQ) with up to 200,000 kg of cannabis.

According to CEO Sebastien St-Louis, this agreement will give the company the second highest recreational revenue among licensed producers for the first year of the recreational market in Canada and 35% of Quebec's recreational market share.

Hydrothecary plans to change its corporate name for HEXO to match the brand name under which the company will be selling its recreational cannabis products.

## Bottom line

Over the last year, Hydrothecary's share price has risen by almost 300%. The stock entry on the TSX should increase its valuation.

I think that this small pot producer has big potential. Hydrothecary is one of the lowest-cost producers and is offering [unique products](#) that attract consumers. The company is also well prepared to face the recreational market by rapidly increasing its production capacity.

According to estimates, the company's revenue could increase more than 1,800% to about \$100 million in 2019 and earnings could rise 150% to \$0.06 per share. It's time to buy shares of Hydrothecary before the market recognizes its full potential.

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