



## Will This Stock Beat Canopy Growth Corp (TSX:WEED) to Cannabis-Infused Beer?

### Description

*"Cannabis-infused beer."*

There was a time when saying that sentence out loud would have gotten you laughed out of the room. But now it describes a product category that beer makers have got their sights set on. With alcoholic beverage sales more or less flat-lining, brewers are looking outside their traditional purview for increased sales. And it looks like [cannabis-infused drinks](#) are going to be a part of the new picture.

The quest for the pot-infused beer was a big part of what motivated the \$5 billion **Canopy Growth** ( [TSX:WEED](#))(NYSE:CGC) investment [earlier this year](#). Representatives of **Constellation Brands** said that part of the reason for making the deal was to explore the possibilities of cannabis-based beverages.

But a smaller, relatively unknown company may yet beat them to the punch. The company is **Hexo** ( [TSX:HEXO](#)), and it's already working on a joint venture with one of the world's largest companies to produce cannabis-containing drinks.

### A deal with a giant

Earlier this year, Hexo and **Molson Coors** announced that they had launched a joint venture to explore the possibilities of cannabis beverages. The announcement was well timed, as it came shortly after parliament had passed bill C-45, legalizing cannabis nationwide. This led to speculation that the move was intended to capitalize on the October legalization date.

In an interview, Hexo CEO Sébastien St-Louis said that he expected revenues from cannabis-based beverages to be significant. "This is a material opportunity for both companies," he said. "And we expect the revenue from adult-use cannabis beverages to be massive."

Given that two million Canadians smoke cannabis on a weekly basis, Mr. St-Louis's expectations may not be unreasonable.

## Beating Canopy to the punch?

By some metrics, Hexo is further along the path to cannabis-infused beverages than Canopy is. Although Constellation did mention cannabis beverages as being part of its reason for acquiring Canopy, no plans between the two companies are set in stone. Molson and Hexo, however, have already started a new standalone company, complete with its own board of directors, with the express purpose of exploring cannabis-infused drinks.

Such products could prove lucrative if they come to fruition. Part of the reason that cannabis companies struggle with profitability is because raw cannabis flower is a commodity, and therefore it's subject to strong price competition. Combining cannabis with a more brand-differentiated product, like beer, could provide the marketing magic that cannabis needs to sell at a premium.

## Is Hexo a buy?

Hexo, like most cannabis companies, is experiencing difficulties when it comes to profitability. Although revenue is growing at an "average" 4.9% year over year, the company's net income is negative. In the most recent quarter, the company lost \$1.9 million, while taking in \$1.24 million in revenue. These figures are typical of cannabis companies, most of which aren't profitable in net income terms. However, many cannabis companies, such as Canopy, are growing revenues at high double-digit rates. Hexo's combination of mediocre revenue growth and negative earnings make it one of the weaker picks in the cannabis sector (new product categories notwithstanding).

## CATEGORY

1. Investing

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2. TSX:HEXO (HEXO Corp.)
3. TSX:WEED (Canopy Growth)

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