



This Overlooked Cannabis King Could Join the Ranks of Canopy Growth Corp. (TSX:WEED)

Description

If you're a marijuana investor, you've probably done ample research on the big Canadian marijuana producers in **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC), **Aurora Cannabis**, and **Aphria**. You may be keeping a close eye on **Tilray** as well after its loud NASDAQ IPO that rattled the entire world after its shares made its investors rich over the span of a few weeks.

The marijuana space is starting to get crowded. Investors are hungry for a piece of the pot pie, and many other producers are desperately trying to make a name for themselves.

Simply put, speculation aura is afoot, and while some up-and-coming names may stand to be wiped out at the hands of a more dominant leader over the next few years, there's undoubtedly more upside that exists with some of the lesser-known marijuana firms — ones with distinct advantages over the broader basket of marijuana producers.

While sticking with established larger-cap names like Canopy and Aurora will still get you a front-row seat to next-level growth, you might be able to get a better bang for your buck by doing some digging in places where most people aren't looking.

Hexo ([TSX:HEXO](#)) is a small-cap marijuana growth company with a strong competitive edge over most of its peers in the space. Not only does the company already have a [joint venture](#) with **Molson Coors Brewing** in the bag, but it also possesses a portfolio of strong brands, and even more remarkably, it's got a moat built around the province of Quebec.

Underrated branding prowess

Now, product differentiation is a massive question mark as we head into a legalization environment whereby regulators are pushing for unappealing, bland labelled product packaging.

As time goes on, however, one can't help but think that regulators will relax stringent policies, allowing marijuana companies to differentiate themselves from one another and thereby turning a perfectly competitive market into a monopolistically competitive one.

At this point, I think it's inevitable that regulators will allow for branding and differentiation. When this occurs, the companies with the best brand prowess will have the opportunity to pull ahead of the competition.

Hexo's branding expertise, I believe, is underrated and is comparable to the likes of a Canopy, as I've noted in my previous piece where I referred to Hexo as a ["baby" Canopy](#). Hexo's branding efforts will pay huge dividends once regulators give the green light on creative packaging.

A moat built around Quebec

Quebec is a culture of its own. The Quebecois love their own province-grown businesses and brands. And they're incredibly loyal, even as non-Quebec-based substitute products become available.

Hexo, with its headquarters in Gatineau, has a supply deal inked with the province of Quebec. The competition will mostly be held at bay because of this deal, but if ever it expires, and product differentiation takes rule, Hexo's products will continue to reign supreme in its home market.

In that regard, Hexo has a moat built around Quebec, even though it may not seem like it.

Foolish takeaway

Hexo isn't a cheap stock, as it's up nearly 400% over the past year. When compared side-by-side to other larger marijuana producers in the space, however, Hexo's mere \$1.65 billion market cap implies that the stock has a lot further to run as more light is shed on the company.

Stay hungry. Stay Foolish.

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