



Could HEXO Corp. (TSX:HEXO) or Cronos Group Inc. (TSX:CRON) Be the Next Weed Stock Takeover Target?

Description

Consolidation has been the name of the game in 2018 for Canadian [cannabis stocks](#).

Lets take a look at **HEXO** ([TSX:HEXO](#)) and **Cronos Group** ([TSX:CRON](#))([NASDAQ:CRON](#)) to see if one might be an attractive buy for the larger players in the [marijuana stock](#) sector.

HEXO

Quebec-based HEXO's corporate headquarters isn't too far from industry leader **Canopy Growth**. In fact, the trip from Gatineau to Smiths Falls is a mere 80 km and only takes about an hour, depending on traffic.

The close proximity of the offices and production sites might appear to make a tie-up appealing, but Canopy Growth's CEO has said he is more interested in international acquisition opportunities than in additional Canadian ones. That might be the case, given the company's existing strong presence in the Canadian market. Canopy Growth was an early mover in the consolidation game, buying up key competitors when prices were cheaper than they are today.

Another reason Canopy Growth might not be interested in HEXO is the potential conflict on the drinks side. Canopy Growth is 38% owned by Corona-maker **Constellation Brands**. HEXO has an agreement with **Molson Coors Canada** to set up a joint venture to develop cannabis-infused beverages.

A more likely suitor could be **Aurora Cannabis**. The company has already made two large acquisitions in the Canadian marijuana sector this year, spending \$1.1 billion for CanniMed and \$2.5 billion for MedReleaf. To date, Aurora Cannabis doesn't have a dance partner in the beverage industry, so a takeover of HEXO would quickly sort that out, and Molson Coors would be an appealing choice.

Aurora Cannabis isn't afraid to do big deals, so HEXO's current market capitalization of \$1.6 billion shouldn't scare it off. At the time of writing, Aurora Cannabis has a market capitalization of \$11.3 billion.

Cronos Group

Cronos Group is playing catch-up in Canada and is expanding its presence in Europe, Australia, Israel, and Latin America.

The European and Latin American markets are home to more than 1.1 billion people, so the appeal in these regions for long-term growth opportunities could entice one of the larger players to scoop up Cronos while it is getting established.

Cronos has another interesting side to the business that could make it attractive. The company has partnered with Ginko Bioworks to conduct research that would remove the key cannabinoids from the plants and reproduce them in a lab environment. The potential uses are extensive in the wellness industry, and in fragrance, cosmetic, and consumable applications. If a company can succeed in eliminating the need to spend billions on greenhouses to grow plants, it would completely disrupt the industry.

Canopy Growth gets a lot of media attention for its planned forays into the recreational market and cannabis culture brands, but the health side of the industry is very important to the company, so Cronos might be an interesting target.

At the time of writing, Cronos has a market capitalization of \$2.4 billion.

Should you bet on a buyout?

HEXO and Cronos are both trading at very expensive levels after the rallies that occurred in the past two months. As such, investors should be cautious when starting a new position.

Eventually, I suspect the two companies will be bought, but when that will happen and at what price is anyone's guess. If you want to make a speculative investment, I think HEXO might be the first to go, but I would wait for a better entry point.

Other potential home run opportunities exist in the market.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NASDAQ:CRON (Cronos Group)
2. TSX:CRON (Cronos Group)
3. TSX:HEXO (HEXO Corp.)

PARTNER-FEEDS

1. Msn

2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date

2025/08/20

Date Created

2018/10/03

Author

aswalker

default watermark

default watermark