



Aurora Cannabis Inc. (TSX:ACB) and HEXO Corp. (TSX:HEXO) Are Still Worth Scooping Up Ahead of Legalization

Description

A good performance for cannabis stocks last week was just about the only positive to glean after the TSX index suffered a retreat, even after Canada struck a last-minute trade deal with the United States. Tomorrow, we will be exactly a week away from the official date for recreational legalization. Over-the-counter availability will vary across provinces, but Canadians will be able to purchase legal cannabis in some form.

Today, we are going to look at two stocks that have performed well in the early fall as the legalization date approaches. Let's see why both are still worth picking up before the big day.

Aurora Cannabis ([TSX:ACB](#))

Aurora Cannabis stock rose 5.35% on October 5. Shares are up 57% over the past month and the stock is up 33% in 2018 so far. As good as this performance has been, the stock has lagged behind some of its peers like **Canopy Growth** and **Aphria**.

Back in early September, I'd discussed why Aurora remained a [solid option](#) for investors on the hunt for growth. At the time, the stock was hovering below the \$9 mark. On October 5, Aurora closed at \$12.81. It is not just Aurora's stock price that has shined brightly over the past several weeks. The company has made progress in [several key areas](#).

Aurora reported that its revenues more than tripled in the fourth quarter of fiscal 2018 to \$19.1 million. Gross margin on cannabis hit 74% compared to 58% in the prior year. Efficiencies from automation and yield expertise resulted in the cash cost to produce dried cannabis to decrease 11% to \$1.70 per gram. Net income surged to \$79.3 million over a net loss of \$20.8 million in the previous quarter and a \$4.8 million loss in Q4 2017.

Aurora leadership has also expressed confidence that it has enough supply to meet its commitments over the course of the legalization roll out. By the end of 2018, Aurora expects to be capable of producing 150,000 kilograms per year.

HEXO ([TSX:HEXO](#))

Shares of HEXO have soared 107% in 2018 so far. The story of its stock this summer has some parallels to Aurora, which was also priced below the \$5 mark before surging in the late summer and fall. The company is expected to release its fiscal 2018 fourth-quarter results in early November.

HEXO received a huge bump after it was announced that it had partnered with **Molson Coors Canada** to launch Truss, a line of non-alcoholic cannabis-infused beverages. Consumable cannabis will not be legal on October 17, as the federal government has said that the effects of consumables require more research. It will be at least a year after legalization before consumables will be legal, but the potential of the market makes it worth the wait for those jumping in right now. The cannabis-infused beverage industry could grow into a \$600 million market by 2022, according to **Canaccord Genuity** analysis.

HEXO also secured a supply agreement with the Ontario Cannabis Store in August and furthered its national expansion strategy with the acquisition of a two-million-square-foot facility in Belleville, Ontario, in September. The location will be used for the manufacturing of cannabis products like cosmetics, vapes, non-alcoholic beverages, and other consumables.

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