

Aphria Inc (TSX:APH) vs. Hexo Corp (TSX:HEXO): Which Is the Better Small Cap Weed Stock?

Description

In the cannabis world, a handful of stocks get all the attention. While media darlings like **Canopy Growth Corp** and **Tilray Inc** get copious amounts of ink, smaller companies get less recognition. Yet in many ways, these smaller stocks are better picks.

With a stronger focus on the domestic market, many of them stand to benefit more from legalization compared to bigger companies with huge international footprints. And in many cases, the smaller pot stocks are actually more profitable than their large-cap peers.

Two of the main contenders in the small cap cannabis stock space are **Aphria Inc** (TSX:APH) and **Hexo Corp** ([TSX:HEXO](#)). Neither of these are truly small anymore, as both have market caps in the billions. But compared to Canopy and Tilray, they're positively tiny.

Both Aphria and Hexo have been gaining in the past year on the strength of the broader cannabis sector. The question is, which one is the better pick ahead of legalization? It helps to start by looking at earnings.

Earnings

For the cannabis sector, earnings have long been a contentious point. With many cannabis companies failing to consistently post positive EPS, some investors are wondering whether the sector is in a speculative bubble.

Among the two stocks in question, Aphria is doing much better earnings-wise. It's currently one of the few cannabis stocks with strong earnings (although these earnings come from investments, not operations). Its revenue growth is much higher than Hexo's at 110% year-over-year.

It also has a multi-year track record of [positive net income](#), which Hexo does not have. If you're investing in cannabis stocks for revenue or earnings growth, Aphria is clearly the better pick here.

Cannabis-infused beverages

One thing Hexo has going for it is the potential to develop cannabis-infused beverages. Cannabis beverages are a product category that many beverage makers are exploring, as they eye the strong gains in cannabis and contrast them with stagnation in their own industry.

This product category, should it come to fruition, could be profitable for beverage companies and cannabis companies alike. For beverage makers, it could re-ignite stagnating sales. And for cannabis companies, it could lock in revenue with long-term supply contracts.

Many cannabis companies have been in talks with beverage companies to develop cannabis

beverages. But Hexo is by far the furthest along the path. The company has already launched a [joint venture](#) with **Molson Coors** to explore developing a cannabis drink. Should this project succeed, it could give Hexo's slow revenue growth a lift.

But thus far, we don't know much about the Hexo-Molson JV other than the fact that it is underway. For the time being at least, it looks like Aphria is the better small cap cannabis stock based on revenue and earnings.

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