

Will This Cannabis Company Take Off or Go up in Smoke?

Description

Over the course of the past few months, there has been an explosion of market activity with respect to cannabis stocks. While some of those [other cannabis stocks](#) have garnered significant interest that has propelled their stock prices well into the stratosphere for no apparent reason, other cannabis players have taken the opportunity provided through those gains to invest into multiple avenues of growth.

One stock in particular that I'm becoming more fond of lately is **Hexo** ([TSX:HEXO](#)), which I can attribute to the following three reasons.

Hexo is expanding on multiple fronts

When we think of the implications of legalization, the potential number of complementary products and businesses that could spawn from this new sector of the economy is mind-numbing. Anything from clothing and edibles to incense and beverages can be deemed a target vertical for cannabis producers.

Hexo is already leveraging that potential, thanks to a number of well-timed deals, such as the agreement with B.C Liquor Distribution Branch forged earlier this year to sell a line of cannabis oil sprays throughout the province.

Then there's the partnership with **Molson Coors**, also announced this summer, to develop a series of non-alcoholic cannabis-infused beverages that could lead to massive growth opportunities and a whole new line of drinks.

Finally, there's Hexo's multi-year agreement with Quebec that calls for the company to provide 200,000 kilograms over the course of five years.

Hexo is increasing its capacity in Canada and abroad

If there's one thing that is becoming fairly obvious, it is that Hexo needs to scale up production efforts, especially if the company is contemplating the verticals I mentioned above, which represent just a fraction of the potential opportunity.

To that end, Hexo's flagship 250,000-square-foot facility, which broke ground just last year, has already been dethroned by a newer facility under construction that offers four times the space at one million square feet.

Turning to markets outside Canada, Hexo also recently branched out to Greece, where the development of a 350,000-square-foot facility with Greek company Qannabos will cater to medical cannabis customers in the European market, where the market is expected to balloon to well over \$100 million within the next decade.

Hexo is still attractive for its potential, but a little expensive

Hexo is currently trading at just below \$8.50 with a market cap of over \$1.6 billion. Much like the other cannabis players on the market, Hexo is not turning a profit just yet, as the company is investing heavily into growth initiatives, so potential investors should look at the stock as one that is clearly in start-up mode rather than an established player that is expected to produce a healthy bottom line with each passing quarter.

This might make the company look expensive or even [risky](#), but in reality, Hexo is a market disruptor that is just itching to take off. Those gains may not come next week with legalization, but they will come over the long term.

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