



Should You Buy HEXO Corp. (TSX:HEXO) or Aphria Inc. (TSX:APH) Stock Right Now?

Description

Marijuana stocks are giving back some of the gains they chalked up over the past couple of months, and investors are wondering which companies might be the best [cannabis stocks](#) to buy on the pullback.

Let's take a look at **HEXO** ([TSX:HEXO](#)) and **Aphria** (TSX:APH) to see if one deserves to be in your portfolio today.

HEXO

HEXO might be the Canadian [marijuana stock](#) that has the most potential in the space.

The Quebec-based company has a dominant position in its home province. In fact, HEXO and a partner have a three-year deal with the Societe Quebecoise du Cannabis (SQDC) to operate the distribution centre for cannabis sold through the province's web store. In the first few days of legal recreational sales, HEXO was able to meet higher-than-expected demand, according to the SQDC.

HEXO is currently working out of a 310,000-square-foot production facility, but will have a new one-million-square-foot site completed by the end of 2018. The company also announced an agreement to acquire 25% stake in a two-million-square-foot facility in Belleville, Ontario. The site will be used as a development, production, and distribution hub for a full range of cannabis products.

Canada is expected to allow the sale of cannabis edibles and drinks some time in 2019. HEXO has partnered with **Molson Coors Canada** to create a new company, Truss, that will develop and market cannabis-infused beverages for the Canadian market.

Overseas, HEXO plans to develop a 350,000-square-foot facility in Greece with a local partner to supply the evolving cannabis market in Europe.

At the time of writing, HEXO trades at \$5.50 per share, which is down from \$9 last week. The current market capitalization is about \$1.1 billion.

Aphria

Aphria's stock has also come under pressure in the days since recreational cannabis sales went legal in Canada. The stock is down to \$15 from about \$20 per share.

Aphria's market capitalization is roughly \$3.7 billion, which should give it some added clout to make acquisitions or expand its capacity.

Aphria is a low-cost producer in the Canadian market, and management is tapping the power of technology to reduce production costs even further. Robots and automation are being tested and could significantly improve planting and harvesting speeds.

Aphria has distribution agreements with all of the provinces and one territory, so it is positioned well to benefit from adult-use recreational cannabis demand. The company just announced plans to have the stock listed on the New York Stock Exchange, which would give Aphria exposure to a much broader investor base.

Recent rumours that a major U.S. tobacco company is in discussions to acquire a stake in Aphria provided a nice boost to the stock a week before legalization. No deal has been announced, but it would make sense. Cannabis is viewed as a major disruptor for alcohol and tobacco companies.

Aphria has a partnership with North America's largest wine and spirits distributor, Southern Glazer's.

Overseas, Aphria has supply agreements, partnerships, or subsidiaries in Europe, Australia, and South America.

Should you buy?

Volatility should be expected, as investors try to decide if market expectations will translate into enough revenue growth and profits to justify current valuations.

HEXO and Aphria are both positioned to succeed, and should be reasonable long-term bets. However, given the recent plunge, it would be best to keep any new position small, just in case more downside is on the way before things stabilize.

If you only buy one, HEXO could be a takeover target as the sector continues to consolidate, so investors might see a nice premium emerge in the coming months, especially if the recent drop in the stock price is extended.

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