

Here's Why HEXO Corp (TSX:HEXO) Is My New Top Pick in the Cannabis Sector

Description

At a market capitalization of just a little more than a billion dollars, **HEXO** ([TSX:HEXO](#)) is one of the smaller cannabis companies listed on the TSX Index. Granted, it's not as small as **VIVO Cannabis**, which trades at under \$1 per share.

But HEXO remains significantly undervalued compared to rivals **Aphria**, **Aurora Cannabis**, and **Canopy Growth**, each of which are at least three times its size; Canopy is valued at a nearly 10 times premium in terms of market capitalization.

One reason I like HEXO right now compared to the other larger incumbents is, in fact, its [smaller size](#).

I've invested in Canopy and Aphria in the past, but at current valuations I'm just not sure how much room they have further to run.

HEXO, meanwhile, states that its plan is to continue to establish itself as a strong regional leader within the Quebec market and build off that success to become the second-largest cannabis company in Canada by market share.

Those are bold dreams, but this is a company that did, after all, enter a landmark agreement with brewer **Molson Coors** to develop some of the world's first cannabis-infused beverages.

And according to the company's website, the Molson deal could just be the beginning of a series of deals the company looks to make with other major strategic partners to develop, market, and sell a whole host of premium cannabis products.

HEXO already has a line of peppermint oil cannabis-infused sublingual sprays, and it says it hopes to introduce more new products to its line, including vapes, cosmetic products, and a food line ranging from edibles to baked goods and even dairy products.

And it says it plans to employ the same JV model that used to ink the Molson deal with other Fortune 500 companies as it expands its product line.

That makes perfect sense to me; even though HEXO has a very solid balance sheet in its own right (\$250 million in cash and equivalents and no debt), its multi-billion-dollar partners will have even greater financial resources to draw on as they invest in R&D, production, and marketing. Not to mention the skills and expertise that companies like Molson and other Fortune 500 companies bring to the table.

HEXO will be free to focus on its core competency of producing the actual cannabis itself.

HEXO realized an average cost per gram of less than \$1, which is right up there with the best of its [competitors](#); meanwhile, it realized an average sales price north of \$9 per gram, as it benefited from the sales of premium-branded products.

Bottom line

On the heels of the ban on prohibition, there's no question that cannabis right now is a hot commodity.

But as more and more players enter the market, it will become just that — another commodity.

HEXO is doing the right thing in branching out from what will more than likely soon be an over-saturated market for the dry cannabis flower.

Markets, after all, are in the business of paying for added value.

HEXO's strategy to partner with established mega brands to create and develop an expanded line of products shows the company's head is in the right place.

Fool on.

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