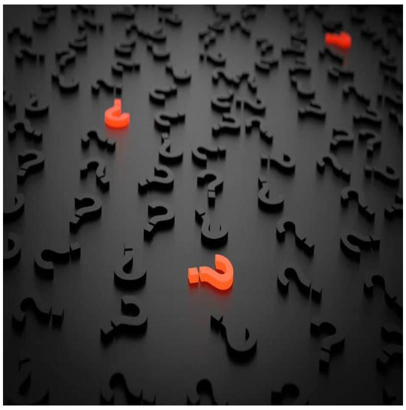

HEXO Corp. (TSX:HEXO): Has This Marijuana Stock Finally Bottomed?

Description

The pullback in cannabis stocks in the past two weeks has hit the share prices of Canada's top pot stocks hard, and investors who have been on the sidelines through the entire rally and subsequent plunge are wondering which marijuana companies represent the best buys today.

Let's take a look at **HEXO** (TSX:HEXO) to see if it deserves to be in your portfolio right now.

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Value play?

The entire cannabis sector continues to trade at valuations that are expensive, regardless of the metrics used to calculate what these companies might be worth.

The recent pullback, at least, takes some risk off the table for investors who think the Canadian and global marijuana markets are going to deliver as expected. HEXO's stock is down from about $9 per share two weeks ago to the current price of $5.30. That puts the market capitalization at roughly $1 billion.

Some pundits see the stock as being undervalued compared to its peers. In the way the market looks at cannabis companies, that might be the case.

HEXO is much smaller than competitors such as **Canopy Growth**, **Aurora Cannabis**, **Tilray**, and **Aphria**, but it has all the pieces in place to potentially punch above its weight in the sector.

HEXO is the dominant player in the Quebec market and has an agreement to run the province's processing and distribution system for adult-use orders that come through the government website. The launch of the recreational market has hit some supply snags, which shouldn't be surprising, but that should get sorted out.

HEXO currently has more than 300,000 square feet of production space and expects to complete construction of an additional one million square feet by the end of the year. The company has also taken a stake in a two million square foot site in Ontario that will serve as a hub for the development, production, and distribution of alternative cannabis products.

Beverages

On the drinks side, HEXO followed the Canopy Growth lead and partnered with a major beer company. In the wake of a deal announced in August, HEXO has created a new company in partnership with **Molson Coors Canada** to develop and eventually market cannabis-infused drinks.

The risk to the beer, wine, and spirits market might be overblown, but big players are concerned enough that they are forking out some serious cash to ensure they get a piece of the action. **Constellation Brands** has invested more than $5 billion to take a 38% ownership stake in Canopy Growth.

International

The buzz around the recreational market is good for promotion, but the meat-and-potatoes opportunity in the sector arguably still lies in the medical marijuana space. HEXO knows this and is partnering with a local firm in Greece to build a large production facility that will serve the growing European market.

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Should you buy?

Any investment in the cannabis sector is risky right now. However, if you are of the mind that the industry will develop as expected and like betting on the underdog, HEXO might be an interesting pick right now. The huge pullback in the stock price could trigger a takeover offer by one of the larger players. HEXO has a lot to offer and it is much cheaper now than it was just 15 days ago.

That said, I would keep the investment small, and investors should be prepared for ongoing volatility. Other disruptor markets might be a better place to invest right now.

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