

Should You Buy Aphria Inc. (TSX:APHA) or HEXO Corp. (TSX:HEXO) Stock Today?

Description

Cannabis stocks have given back a big chunk of their gains in recent weeks, and investors who missed the rally through the end of the summer are wondering which [pot stocks](#) might be the best picks right now.

Let's take a look at **Aphria** (TSX:APHA)(NYSE:APHA) and **HEXO** ([TSX:HEXO](#)) to see if one deserves to be on your buy list.

Aphria

Aphria pretty much has Canada covered, with supply agreements now in place with all the provinces and one territory.

Unfortunately, the start of legal market for recreational marijuana sales has hit a few speed bumps, primarily connected to supply shortages and delivery disruptions caused by the rotating strikes at Canada Post. Aphria also had some specific challenges related to a lack of staff in the last quarter.

Supply will continue to ramp up, and Canada Post workers are being sent back to work, so the broader market issues should dissipate. Aphria found more workers while it sorts out some final details on a shift to automation.

The company is already a low-cost producer in the industry, but innovative planting and harvesting techniques the company is testing should make Aphria's operations even more cost efficient.

The company has not announced a major beverage partnership to date, although it does have a distribution arrangement with Southern Glazer's, North America's largest distributor of spirits and wine. The fact that the current president of Aphria is a former Diageo executive would lend one to think a deal is on the way, given that he knows the global beverage industry extremely well.

Overseas, Aphria is setting itself up to take advantage of the growing medical marijuana opportunities with partnerships or subsidiaries in Europe, Australia, Africa, and South America.

Current Canadian production capacity is 35,000 kilograms per year, but that's expected to jump to 255,000 kilograms in 2019. As a result, Aphria should see a significant revenue increase next year.

At the time of writing, the stock trades for \$11.80 per share, giving Aphria a market capitalization of about \$2.6 billion.

HEXO

HEXO already has its dancing partner in the drinks sector. The company has formed a new venture, Truss, with **Molson Coors Canada**. The two firms are working together to develop cannabis-infused

beverages for the upcoming legalization of the cannabis consumables market in Canada.

HEXO is smaller than a number of its Canadian peers, so at first glance, it might seem odd that Molson Coors Canada would pick HEXO as its pot partner, but HEXO is based in Quebec, and Molson is one of the province's oldest companies.

HEXO is close to finishing its new one-million square foot production facility in Quebec. In addition, HEXO has taken a 25% interest in a two-million square-foot site in Ontario that will serve as a hub for development, production, and distribution of associated cannabis products, such as cosmetics and edibles.

Hexo is also gearing up for the European market. The company recently announced plans to build a production site in Greece.

Hexo trades at \$5.85 per share at writing, giving it a market capitalization of \$1.2 billion.

Is one a better bet?

Aphria and HEXO are both making the right moves to position themselves for success in the emerging Canadian and global cannabis markets. With consolidation expected to continue, Aphria could decide to buy or merge with HEXO to create a company that would be better positioned to compete with the larger names, such as **Tilray**, **Canopy Growth**, and **Aurora Cannabis**.

The giants might also move to acquire either Aphria or HEXO while the stock prices are under pressure.

These stocks are still expensive, and more volatility should be expected, so investors should be careful. However, if you like the long-term potential of the cannabis sector, you might want to split a contrarian bet between Aphria and HEXO on further weakness.

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