

My Favourite Pot Stock for 2019 With 300% Upside

Description

The marijuana industry had a deluge of good news at the end of 2018. The U.S. Congress passed a farm bill legalizing CBD, a form of cannabis; marijuana was made legal for medical use and research in Thailand, a region known for its strict drug laws; and New York Governor Andrew Cuomo released a plan to legalize recreational marijuana in 2019.

With sudden changes in regulatory conditions, most pot stocks have experienced plenty of volatility throughout the year. **Hexo Corp** ([TSX:HEXO](#)) is no exception. While the stock has tripled since debuting in 2017, there have been plenty of 50% swings along the way.

The road will continue to be bumpy, but there are plenty of exciting reasons for Hexo to be my top pot stock for the year ahead.

Undervalued and under-appreciated

In 2019, Wall Street expects Hexo to grow its sales by more than 2,000%. Judging by the assets the company has been putting in place for months, these lofty projections are understandable.

First, its new 1 million square foot production facility, which began construction in December, will soon be ready to go online. This facility alone will produce an annual output of 108,000 kilograms of marijuana. Last month, wholesale prices were \$7,790 per kilogram on average, which could result in more than \$800 million in new sales for Hexo this year.

Much of these sales are already de-risked, as Hexo has a five-year deal with Quebec to provide 200,000 kilograms of pot annually. In 2017, Canadians purchased more than 750,000 kg of cannabis worth \$5.7 billion, with estimates for it to grow to \$9.2 billion by 2025.

Now trading at 32 times sales, Hexo appears pricey, but incredible growth is fairly assured this year. With a market cap of just \$1.2 billion, shares could quickly trade for less than 1 times sales. If these sales do come through, there should be plenty of upside.

Competitor **Aurora Cannabis Inc** trades at roughly 70 times sales, while **Cronos Group Inc** trades at more than 100 times sales. So even across the industry, Hexo shares are priced at a discount, despite its rosy prospects.

How much upside is there?

The current multiples for pot stocks won't be sustained forever. In comparison, many fast-growing tech stocks trade at 10 to 20 times sales. With plenty of states and countries yet to legalize weed, however, there's likely many years of growth ahead. Apart from traditional pot, the company has also explored new market segments that are widely untapped. It recently forged a partnership with **Molson Coors Brewing Co** to explore producing cannabis-based drinks.

Following the lead of Aurora and **Canopy Growth Corp**, Hexo anticipates listing its shares on the NYSE. This could finally bring the amount of visibility the company deserves versus its peer group. "It should help tell Hexo's story as one of the world's biggest cannabis products makers," CEO Sebastien St-Louis said.

If the discount closes, Hexo shares could easily be worth three to four times more than the current price. If the NYSE listing doesn't close the discount, management has indicated that it would be searching for premium private transactions to best serve shareholders. "It's certain that if someone comes and offers a 150 percent premium tomorrow, we are for sale," Hexo's CEO noted.

Whether it's through a higher multiple or an acquisition, Hexo shareholders can expect to be rewarded this year.

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rvanzo

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