



Can This Small-Cap Pot Stock Outpace Aphria (TSX:APHA)?

Description

Aphria's stock (TSX:APHA) (NYSE:APHA) has soared by more than 50% since the beginning of the year. This performance is due in part to Aphria riding the wave of the stock market, which is currently trending up. But Aphria also has several things going its way.

The Ontario-based firm offers the cheapest stock among the most popular Canadian cannabis companies, and the company's share price has been affected positively by an aggressive takeover bid from **Green Growth Brands Limited**.

An argument can be made for the claim that Aphria offers the best value (pound for pound) among the pot stocks on the TSX, but there is another company that deserves to be on your radar. That company is **HEXO** ([TSX:HEXO](#)), a Quebec-based cannabis company. HEXO's market cap is currently less than Aphria's, and HEXO's stock is a few dollars cheaper. Is this small-cap pot stock a better buy than Aphria?

HEXO's supply agreement

HEXO has largely flown under the radar, at least when compared to other more popular cannabis companies. Despite this relative anonymity, though, HEXO has one advantage over its competitors: the company signed what is currently the largest supply agreement in Canada. Of course, other cannabis providers have managed to land supply agreements.

Cronos Group Inc (([TSX:CRON](#)) ([NASDAQ:CRON](#)) has supply agreements with the Ontario Cannabis Retail Corporation, the BC Liquor Distribution Branch, and the Portland-based marijuana oil company Cura Cannabis Solution. Similarly, **Canopy Growth Corp** ([TSX:WEED](#)) (NYSE:CGC) has a supply deal with every province in Canada.

But HEXO's supply agreement — which the company signed with the relevant authorities in Quebec — will see HEXO deliver 200,000 kilograms of cannabis over five years. This amount dwarfs that of HEXO competitors' agreements. HEXO seems well positioned to take advantage of the increase in demand for cannabis in the region.

One major flaw

Despite this lucrative deal, HEXO has one major drawback. While many of its competitors have recognized the value of having a significant presence abroad, HEXO is currently lagging behind in that regard. The Canadian pot industry only represents a small percentage of the global cannabis market.

Aphria's presence abroad is [well established](#). Vic Neufeld, the former CEO of Aphria, once referred to the Ontario-based company as a "global leader in the cannabis industry." Aphria has a hand in Latin America with plans to expand further. Aphria also has a partnership with Denmark-based Schroll Medical to cultivate organic medical cannabis.

Investor takeaway

HEXO's partnership with Quebec will increase the company's top line. There is one more thing going HEXO's way. Last year, **Molson Coors Brewing** announced a partnership with HEXO to produce cannabis-infused beverages. Despite these important growth engines, HEXO is currently far behind some of its rivals in one key area: international presence.

This factor is significant given the potential the cannabis company possesses in many parts of the world. While HEXO is currently an exciting prospect, I would hold off on jumping aboard that ship, at least until HEXO can materialize its promise to go international. At the moment, Aphria still looks like the better buy.

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