



Which Pot Stock Can Provide Better Growth?

Description

Over the course of the past year, investing in marijuana stocks has proven to be very popular, and in some ways, a lucrative opportunity for long-term gains. Following legalization last year, two of the primary players in the emerging sector are **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) and **Hexo** ([TSX:HEXO](#)).

Here's a review of both companies and which of the two is the better investment for your portfolio right now.

The case for Canopy

Canopy Growth is by far the larger of the two companies, and in many respects is often regarded as the one and only pot stock to own. Part of that appeal comes from the early advantage the company has gained over its peers in the past two years, which has allowed the company to grow very rapidly both within Canada and internationally, where Canopy maintains operations in a dozen different countries on five continents.

While that may appeal from a diversification perspective, investors should also consider that the cannabis sector is still very much in its infancy and can reap the rewards of being an early-supplier to those markets where there is still little, if any, competition.

Canopy's deal with **Constellation Brands** last year is tasked with developing a line of cannabis-infused beverages. While the potential for that new beverage market is untapped, there's still no set timeline for when we can expect those products to drop.

Both fans and critics of Canopy often point to the aggressive expansion as a point of discussion. Fans note that Canopy's acquisition history and market position can only strengthen in the still emerging sector, while critics point to the fact that Canopy's rising expenses not sufficiently being offset by a similar rise in earnings. To be fair, revenue in the most recent quarter did surge 256% over the same quarter to last year to \$83 million, surpassing analysts expectations. The increase was largely attributed to legalization, which comprised 70% of all cannabis sales in the quarter.

While that may silence some of the more vocal critics of the stock, investors should keep in mind that Canopy is still very much in a startup mode, meaning it is investing heavily towards future growth.

The case for Hexo

Investors shouldn't be dismissive of Hexo's smaller size, as the company does have a number of compelling reasons for investors to consider, some of which not only match the opportunity posed by Canopy, but also surpass them.

One of the things that I found most alluring about Hexo is how the company has targeted the Canadian market specifically, rather than branching out internationally. Hexo's existing supply agreements, as well as its Elixir line of sprays, which has also garnered its own supply agreement with B.C.'s Liquor Distribution Branch, make Hexo a [well-diversified pick](#) for any portfolio.

That's not to say that Hexo hasn't branched out to other markets; the company has partnered with a company in Greece, where production facilities under construction are set to position Hexo as a major supplier to the lucrative E.U. market.

Adding to this appeal is the fact that Hexo has forged its own partnership with **Molson Coors** to make its own line of infused beverages, under the name Truss.

Hexo has supply agreements with several provinces, including the company's home province of Quebec. The multi-year deal calls for 200,000 kilograms to be supplied to the province, with an increasing commitment in each of the years. In order to meet the growing demand for its products and supply contracts, Hexo has invested heavily in upgrading its production and supply facilities, including a new 250,000 square-foot facility as well as a newer one-million-square-foot facility, both of which are still new.

Which is the better investment?

Both companies offer compelling cases for investors to consider, but at this point, my preference would be Hexo.

Hexo's deceptively small size, particularly when compared to Canopy masks its full potential to provide an array of product lines to both provinces and businesses across the country. As the market for cannabis-related products expands, this could prove lucrative for [long-term growth](#). Additionally, Hexo's stock is slightly less volatile over Canopy, making it a safer investment option that could also evolve into a takeover target in the future.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. NYSE:STZ (Constellation Brands Inc.)
3. TSX:HEXO (HEXO Corp.)
4. TSX:WEED (Canopy Growth)

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