



## Does Hexo Corp (TSX:HEXO) Still Have 300% Upside This Year?

### Description

In January, I named **Hexo** ([TSX:HEXO](#)) my [favourite](#) pot stock for 2019. My conclusion was that shares potentially had 300% upside.

Since that call, Hexo stock has popped by around 25%. Compared to my previous predictions, that leaves plenty of upside left for investors. “The road will continue to be bumpy,” I wrote a few months ago, “but there are plenty of exciting reasons for Hexo to be my top pot stock for the year ahead.”

Is Hexo still your best bet among an increasingly crowded cannabis industry?

### Catch up on this news

Several notable events have happened since my last article.

First, Wall Street analysts have added specific forecasts to support the rapid rise of the cannabis industry. Vivien Azer, an analyst at Cowen, now expects the U.S. market to total \$80 billion over the next decade. That’s impressive considering it started from nearly nothing. New markets should make this forecast a reality.

For example, in January, the governor of New York proposed legalizing marijuana in 2019, noting that legal weed sales could generate US\$300 million in tax revenues per year. Even republican-controlled Florida is looking to ease up on strict cannabis regulations. Recently, its governor revealed that it wouldn’t fight smokable medical marijuana, leading many investors to believe the state will eventually trend towards recreational legalization.

Meanwhile, Canada’s cannabis market is expected to surpass \$10 billion over the next few years. The medical marijuana segment of that market alone is expected to quadruple by 2025.

With hard numbers backing the industry’s growth, it’s no surprise that most cannabis stocks have shot higher in recent months.

## Can Hexo still execute?

With strong industry tailwinds, all that's left to do is for Hexo to execute its growth plans. On January 30, the company sold \$57.6 million worth of shares at \$6.50 apiece to fund its expansion initiatives. While dilution isn't always welcome, it's important to note that Hexo seems to be fulfilling its promises to shareholders.

For example, its 1,000,000-square-foot growing facility is now operational. Production is expected to steadily increase throughout 2019. More importantly, however, Hexo seems to be making progress on its branded lineup.

When deciding which cannabis stocks to buy, there's one major factor to consider: branding. Many analysts and investors are myopically focused on industry growth, but if a grower can't brand its product, it will be forced to take commoditized prices.

Earlier this year, the *New York Post* reported that Oregon was "drowning" in more than one million pounds of excess weed. If you don't differentiate your production somehow, pricing collapses due to oversupply can be deadly.

That risk is what makes Hexo's joint venture with **Molson Coors Canada** so interesting. The goal of the partnership is to bring branded cannabis-infused beverages to North American markets. If **Coca-Cola** is any example, branded beverages have the potential to generate profit margins well beyond those of generic cannabis.

While most investors are paying attention to general cannabis production numbers, I'd place much more value on the company's partnership with Molson Coors. It may take some time to begin contributing to Hexo's bottom line, but this stock is still my clear favourite among a competitive cannabis market.

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