



## Is HEXO Corp. (TSX:HEXO) a Top Cannabis Stock for Your Portfolio?

### Description

Consolidation continues in the Canadian marijuana sector as key players position themselves to capitalize on long-term opportunities in the country and overseas.

Smaller cannabis companies that don't have the scale or a sustainable competitive advantage are seeking partners that share their expansion objectives, while the big [marijuana stocks](#) are searching for strategic assets and capacity growth in an attempt to keep up with medical and recreational cannabis demand.

Let's take a look at **HEXO** ([TSX:HEXO](#)) to see if the stock deserves to be on your [buy list](#) right now.

### Acquisition

HEXO is usually viewed as a takeover target, and that probably remains the case, but the company recently announced its own deal in a move that suggests management has bigger plans in the works than shopping the company around to suitors.

HEXO is buying **Newstrike Brands** in an all-stock deal valued at more than \$260 million. Newstrike is best known for being backed by members of the iconic Canadian band The Tragically Hip. The acquisition will add 150,000 kg per year of capacity and expand HEXO's reach in the Canadian market to eight provinces.

The company is targeting fiscal 2020 revenue of \$400 million with the addition of Newstrike, which it says will put it in a position to be the leader of the pack in the Canadian market after industry giant **Canopy Growth**.

### Financials

For the quarter ended Jan. 31, HEXO reported a net loss of \$4.33 million, compared to a loss of nearly \$9 million in the same period the previous year. Revenue came in at \$13.4 million, compared to \$1.2

million.

## Growth

The company is rapidly adding staff to boost production now that its one million square foot expansion in Quebec is complete. In addition, HEXO is working on the activation of its large product centre in Belleville Ontario. HEXO has a 25% interest in the two million square foot site that will serve as a major hub for the production and distribution of its portfolio of cannabis products, including edibles, cosmetics and vapes.

In Europe, HEXO has a partnership in Greece to construct a large production facility to meet the growing demand for medical marijuana in the region. Europe is viewed as a key market for the industry and many of the top players are building a presence as governments adjust their marijuana regulations.

Back in Canada, HEXO is gearing up for the anticipated opening of the recreational edibles market. The company has formed a new company, Truss, in partnership with **Molson Coors Canada** to develop and market cannabis infused beverages.

## Should you buy?

The Newstrike deal gives HEXO the access it needed to five additional provinces, making the company better positioned to compete in the Canadian market. The deal should also make HEXO more attractive as a takeover target.

The stock isn't cheap, but no company in the marijuana sector trades at a multiple that would be considered reasonable in most industries. Investors should anticipate ongoing volatility and probably keep the position small relative to their overall portfolios.

That said, HEXO has a lot going for it, and its leadership position in Quebec should attract suitors as the industry continues to consolidate. Whether or not a big takeover premium is in the cards is anyone's guess, but this stock deserves to be on your radar if you think the cannabis sector is destined to grow as expected.

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