



## Better Marijuana Stock: Hexo Corp (TSX:HEXO) or Aphria (TSX:APHA)?

### Description

In the rapidly expanding cannabis sector, **Hexo Corp** ([TSX:HEXO](#)) has largely flown under the radar. The Quebec-based firm doesn't carry the same brand recognition as some of its rivals. However, Hexo recently pulled a move that landed the company on the map of many investors. [Hexo announced a deal](#) to acquire **Newstrike Brands Ltd**, an Ontario-based medical cannabis producer.

While Hexo still has no shot at finishing top of the class — a spot thus far occupied by **Canopy Growth Corp** ([TSX:WEED](#))(NYSE:CGC) — the company may manage to capture a larger portion of the second-tier cannabis market. Let's see whether **Aphria Inc** (TSX:APHA)(NYSE:APHA) can hold off the emerging competition from Hexo.

### Why the acquisition was significant for Hexo

The legalization of recreational cannabis in Canada opened huge doors for pot companies, but pouncing on such a golden opportunity requires certain prerequisites. Prior to the Newstrike acquisition, Hexo had a license to operate in Canada's three largest provinces, which gave the company access to about 75% of the country's population. Not bad at all, but not great considering how cutthroat the industry is. With the Newstrike acquisition, Hexo will have access to 95% of the Canadian population.

Hexo announced the deal a day before releasing its second-quarter financial results. The firm's earnings report showed smaller net losses than the corresponding period of the previous year (a loss of \$4.33 million compared to \$8.95 million). More importantly, though, Hexo's revenues skyrocketed to \$13.4 million up from \$1.2 million on the back of higher sales (2,537 kilograms vs/ 952 kilograms) and a higher average price per gram (\$5.83 vs \$5.45). With the support of Newstrike, Hexo expects revenues to rise to \$400 million by next year, which would represent an exponential increase from its current levels.

One notable blemish from Hexo's financial results was a decrease in medical cannabis revenue. Although the recreational marijuana sector will play a major role in the future of the industry, the

medical cannabis market has been up and running for years. The most recent national cannabis survey showed that medical uses of marijuana are still an essential part of the industry. Hexo's medical cannabis segment will likely be bolstered by the Newstrike acquisition.

## The case for Aphria

What doesn't kill you makes you stronger, as the saying goes, and in the case of Aphria, it might just be true. The Ontario-based medical cannabis firm has seen its share of troubles in recent months. [The company was accused of self-dealing](#) in a move it made to acquire several firms. This accusation led to Aphria shedding some 60% of its value in about a week, its CEO stepping down and its co-founder leaving his role within the company.

Aphria's stock has been rallying since then, though, as the company presents clear upsides. First, Aphria has supply agreements with all of Canada's provinces. These agreements were inked about a month before the official legalization of recreational marijuana. Aphria currently sells more kilograms of marijuana than Hexo, with 3,408.9 in its latest earnings report, a 92% increase from the previous quarter.

Kilograms sold should keep increasing for Aphria, especially as the company has one of the highest production capacities in the industry. In the firm's estimation, production capacity could soar to 255,000 kilograms by year-end, which would represent a growth of more than 720% from its levels in January.

Aphria has teased investors with hints that it could enter the U.S. hemp market, but the company otherwise possesses strong international operations. With a presence in over 10 countries, including operations in Latin America and Europe, Aphria has a leg up on Hexo when it comes to the global cannabis market (though Hexo also has a presence abroad). This factor could prove to be significant as the cannabis industry — in Canada and elsewhere — continues to grow at a fast pace.

## The verdict

Aphria's domestic operations are currently stronger than Hexo's. Aphria also has a wider global presence. But what really seals the deal is the companies' respective valuations. Hexo currently trades at 263 times future earnings and 78.23 times sales. Aphria, by comparison, trades at 30.49 times future earnings and 49.83 times sales. In other words, Aphria is trading at a discount compared to Hexo. Despite Hexo's recent game-changing move, Aphria still looks like the better buy right now.

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