



Should You Pay \$10 for HEXO (TSX:HEXO) Stock?

Description

Investors who bought **HEXO** ([TSX:HEXO](#)) near the end of December have more than doubled their money.

The broad-based rally in the cannabis sector to start 2019 has people wondering if they should take profits in their pot positions or add more of HEXO and other marijuana stocks to their [portfolios](#).

Let's take a look at the current situation to see if HEXO deserves to be on your buy list today.

Big ambitions

HEXO traded at \$4.31 per share just before the year-end holidays. The stock has since enjoyed a steady rally and recently topped \$11 per share, setting a new all-time high. At the time of writing, HEXO trades at \$10.30 per share.

The current price puts the company's market capitalization at roughly \$2.2 billion. The nearly \$1 billion boost in 2019 is an impressive gain, yet HEXO remains relatively small when compared to its high-profile [peers](#). For example, **Canopy Growth** has a market capitalization of \$22 billion.

Despite its small size, HEXO is setting itself up to play ball in the big leagues of the marijuana market. The company is Quebec's largest supplier of marijuana and has a contract from the province to manage the distribution centre that processes online orders.

HEXO completed a new one-million square foot facility in the province at the end of last year and that should boost its ability to meet growing demand. Supply shortages have been an issue for the pot industry since the launch of the recreational market last October.

Growth

HEXO recently announced an agreement to acquire Newstrike Brands in a \$260 million deal that

expands the company's distribution agreements to eight Canadian provinces. The deal also adds 470,000 square feet of production space and capacity to produce an additional 150,000 kg of cannabis annually.

HEXO anticipates net revenue from cannabis sales in Canada will hit \$400 million for fiscal 2020. The company reported net revenue of \$13.4 million in the results for its most recent quarter and booked a net loss of \$4.3 million.

Opportunities

HEXO has a joint venture with **Molson Coors Canada** to develop and market cannabis-infused beverages. The Canadian government is expected to open this segment of the market in late 2019.

HEXO is also targeting the European market for medical cannabis as governments in the region adjust their marijuana regulations. HEXO is building a production facility with a local partner in Greece. The site will serve as the base for supplying medical marijuana patients in various European countries.

Should you buy?

HEXO is not cheap, but no stock in the cannabis sector trades at a multiple that would be considered reasonable in most industries. As a result, investors have to evaluate the stock based on how they see the various opportunities developing. If you are of the opinion that cannabis-infused beverages will be a big hit in Canada and that medical marijuana sales will take off in Europe, HEXO probably deserves to be on your radar.

In addition, the company's stronghold in Quebec likely makes it a potential takeover target for one of the larger companies. Consolidation is expected to continue as the big players position themselves for growth.

Ongoing volatility should be expected and I wouldn't back up the truck, but a small position in HEXO might be of interest for investors who want exposure to the cannabis sector.

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