

Better Cannabis Stock: Aphria or Hexo?

Description

If you're looking to get your foot into the cannabis industry, there are quite a few opportunities out there right now. But not all of them are cheap.

There are some stocks that have just soared through the roof, only to come down slightly before levelling out. However that hasn't been the case for **Aphria Inc.** (TSX:APHA)(NYSE:APHA) and **Hexo Corp.** (TSX:HEXO).

Both stocks are trading around the <u>\$9 per share</u> mark right now, but that definitely doesn't mean these stocks are equal. So let's dig in and see whether Aphria or Hexo deserves your investment.

Aphria

Since its peak last September around \$20 per share, Aphria has <u>plummeted more than half</u> to where it is now around \$9 per share. Its latest quarterly results definitely didn't help, with the company's stock plunging more than 11% overnight. Revenue jumped to \$73 million, but the core of its operations saw a decline of 23% in volumes, and 35% decline in sales.

The news has put the company in a prime position to be scooped up by investors who believe this company is headed towards a major boost in the future. After all, its P/B is only 1.3 times book, which makes this stock undervalued. So if investors are interested, now could be the time to buy. But that's a big "if."

Despite its low level of debt, the company just doesn't have the cash available should it incur even more debt from acquisitions or further losses. Then again, the reason that it has stayed in a top-tier position is because of its ability to produce 255,000 kilos of cannabis annually. That number just simply cannot be ignored, which is why analysts predict that the stock will grow to \$15 or even \$25 per share by this time next year.

Hexo

Hexo may not be in the top three, but it still provides a strong opportunity for investors interested in the cannabis industry. Whereas Aphria has been losing revenue, Hexo has grown its returns 105.9% over the past year, thereby outperforming its peers. Similar to Aphria, it also has a low amount of debt, but that's coupled with a strong balance sheet that includes some cash in hand to cover acquisitions and losses.

Where it gets tricky is whether this stock is worth the investment at this point. Its forward P/E sits at 41.84 times earnings, and a P/B of 4.9 times book looks high, though not the highest in the cannabis industry.

But it gets a little clearer when you look at the future of Hexo. After its acquisition of Newstrike Brands, the company expects to have annual growth of 63% in earnings, which could make them one of the largest cannabis stocks out there. This was already on top of the company's partnership with Molson Coors.

These initiatives are apparently just the beginning for the company, as Hexo is looking to diversify further into the line of cannabis-infused beverages, and creating a processing, production, and distribution centre in Greece. So while its production remains at about half of what Aphria can produce, It watermark that may not be for long.

Bottom line

While both of these stocks are in for some growth in the next year, I believe Hexo is where new investors should take their money. This company provides an opportunity to get in before the stock explodes, and I put this mainly on the company's focus and management. Rather than acquiring like crazy, its focusing on smart acquisitions and international growth.

Focusing on Canada is simply too small of a market, and who knows when (and if) legalization will happen in the United States. Hexo is at the beginning of international expansion, which means there is a lot of opportunity for shareholder growth And as the company has said, aiming for \$400 million in sales by 2020.

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