



Is Now the Right Time to Buy HEXO (TSX:HEXO) Stock?

Description

Cannabis stocks continue to dominate the market headlines, and investors who missed the marijuana stock rally in the first few months of 2019 are wondering which pot stocks might be the best picks for additional gains in the coming months and through the end of the year.

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

Beverage opportunity

HEXO has partnered with **Molson Coors Canada** to create a new company, Truss, that is developing cannabis-infused beverages ahead of the expected launch of the Canadian cannabis edibles market later this year.

Working with Molson Coors Canada makes sense for HEXO. Molson is one of Quebec's oldest companies and its iconic brands combined with its extensive distribution make it the ideal partner for HEXO, which is also based in Quebec. Estimates vary on the potential size of the cannabis-infused drinks market, with some pundits saying it could take a major share of the beer market, while others are of the opinion that the hype is way overblown and that cannabis-infused drinks will be a short-term fad at best.

Time will tell, but HEXO is certainly positioned to come out of the gates in a strong position. Its main competitor in the beverage market will likely be **Canopy Growth**, which is 38% owned by **Constellation Brands**, a U.S.-based beer, wine, and spirits giant.

Acquisition

HEXO recently announced its acquisition of Newstrike Brands. The \$263 million deal adds 470,000 square feet of production space at a time when producers are scrambling to meet rising demand. The addition of Newstrike instantly boosts HEXO's provincial supply agreements to eight, giving it better market reach across the country.

The combined company is expected to have \$400 million in net revenue in 2020.

International

HEXO also has its sights set on Europe. The company is building a production facility in Greece that will serve as its supply hub for the growing medical marijuana market in various European countries.

Valuation

HEXO currently trades at \$9.60 per share, which gives it a market capitalization of about \$2 billion. That's pretty steep for a company that reported net revenue of \$13.4 million in the most recent quarter and a net loss of \$4 million.

Should you buy?

The entire cannabis sector is expensive, so you have to be of the opinion that the Canadian and global marijuana markets are going to expand significantly if you plan to invest in the industry.

HEXO's dominant position in Quebec and its head start on the beverage segment could make it an attractive takeover target for one of the larger players. Consolidation is expected to continue and HEXO has positioned itself to be a likely buyout candidate.

Whether or not a huge takeover premium will emerge is anyone's guess, but HEXO deserves to be on your pot stock radar today.

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1. Cannabis

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