



Better Cannabis Stock: Hexo (TSX:HEXO) vs. Charlotte's Web Holdings (CNSX:CWEB)

Description

Choosing between the hundreds of companies looking to profit from the growing cannabis sector isn't easy. While some might win big in the long run, many others will likely end up on the sidelines at best. Let's turn our attention to two potential big players in the cannabis sector: **Hexo** ([TSX:HEXO](#)) and **Charlotte's Web Holdings** (CNSX:CWEB). Which of these is the better buy?

The case for Hexo

Hexo is increasingly becoming an attractive pot stock. While the firm currently focuses on the recreational marijuana market — an overpopulated and low-margin opportunity — Hexo currently holds about 30% of the market share in the province of Quebec, thanks to a supply agreement it signed last year.

Recently, Hexo [acquired](#) Newstrike Brands, a Toronto-based cannabis company whose 1.8 million square feet of cultivation space should come in handy. This move should allow Hexo's production capacity (at peak) to hover around 150,000 kilograms per year, which is very competitive by industry's standard.

Further, Hexo entered into a partnership with **Molson Coors Brewing** last year. This venture should give birth to cannabis-infused beverages, which are set to become legal later this year. Thus, Hexo is looking for higher-margin opportunities, which will be critical if it wants to establish itself as one of the leaders in the industry.

Hexo is expecting a boost in sales and revenues thanks to its latest acquisition, which should bode well with investors, especially considering the firm's revenues soared by more than 1,200% over the past year and a half (or so). As a result of several recent developments, Hexo's valuation metrics look a bit more attractive.

The case for Charlotte's Web

Charlotte's Web may not be as popular as some of the biggest players in the pot market, but it would be a mistake to ignore this under-the-radar company. The Colorado-based firm is one of the biggest player in the U.S. hemp CBD market. As you might recall, hemp — a non-psychoactive chemical cousin of marijuana — became legal at the federal level late last year in the U.S when the Farm Bill was signed into law.

Charlotte's Web has its footprints all over the U.S with 6,000 retail locations across the country. The firm's production capacity is also increasing at a steady rate. In 2018, Charlotte's Web planted 300 acres of hemp, a more than 420% increase from 2017. This led to its production increasing to 675,000 pounds (about 306,174 kilograms) in 2018, up from just 63,000 pounds (about 28,576 kilograms) in 2017. The firm plans to plant 600 acres of hemp this year.

Perhaps the most admirable aspect of Charlotte's Web is the fact that the firm is managing to do something few others in the cannabis sector are doing: generating consistent profits. In 2018, the firm's revenues were \$69,501, up from \$40,001 in 2017. Charlotte's Web cost of sales increased to \$17,010 in 2018 from \$9,248.

In both years, the company recorded a net income, which totaled \$11,808,000 in 2018, up 58% year over year. Charlotte's Web currently trades at about 20 times future earnings, which is a bargain by comparison to most of its competitors.

Which is the better buy?

Neither company possesses a very strong presence outside North America. However, Charlotte's Web is currently operating in the largest cannabis market in the world.

While the U.S. has yet to legalize recreational uses of marijuana, the hemp market is not to be ignored, and Charlotte's Web is consistently increasing its revenues and is even profitable — a rarity in the cannabis sector at the moment.

Though Hexo is also an attractive option — thanks to its major supply agreement with Quebec and its partnership with Molson Coors — it looks to be second place to Charlotte's Web at this point.

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