Should You Buy HEXO (TSX:HEXO) or Canopy Growth (TSX:CGC) on the Dip?

Description

Pot stocks are giving back some of the big 2019 gains, which has investors wondering which marijuana stocks might be the best buys to generate strong returns on the next rally.

Let's take a look at **HEXO** (TSX:HEXO) and **Canopy Growth** (TSX:WEED)(NYSE:CGC) to see if one of Canada's popular cannabis stocks deserves to be in your portfolio.

HEXO

HEXO's big production facility in Gatineau, Quebec was in the news this week as residents that live near the new site are complaining that it is stinking up their lives.

Investors might also be plugging their noses when they look at the stock chart, as HEXO is down from $11 per share at the end of April to $8.50. Those who bought at the high might not be too happy, but investors who had the courage to step in at the beginning of the year when HEXO traded for $5.50 are still in pretty good shape.

HEXO arguably punches above its weight. The company only has a market capitalization of $2.1 billion, but has staked out a claim in most of the core markets.

Its acquisition of Newstrike expanded its reach to eight provinces, adding to its dominant position in Quebec, where it's the leading supplier to the Quebec government's cannabis retail operations. The company is also setting itself up to be a player in Europe through the construction of a large production facility in Greece that will serve as HEXO's hub to supply the growing medical marijuana market in the region.

On the edibles front, HEXO launched a new company, Truss, in partnership with **Molson Coors Canada**. The new company is developing cannabis-infused beverages to sell once Canada opens up the edibles market. That is expected to occur in the fall of 2019.

Canopy Growth

Canopy Growth is a giant in the emerging global cannabis sector. Even after the stock's recent slide from $70 per share to $54, the company still sports a market capitalization of $19 billion.

Canopy Growth is Canada's leading supplier of medical marijuana to registered patients, and is taking its expertise to bigger markets, such as Europe, where it owns a pharmaceutical distributor in Germany and is building production facilities in other countries. Canopy Growth also has research and development operations in Chile and production capacity in Colombia to serve Latin America.

In the United States, Canopy Growth is getting itself positioned to take advantage of the potential legalization of marijuana at the federal level. It has an agreement in place to acquire Acreage Holdings for US$3.4 billion, giving it instant access to an existing network of production and retail locations in 20 states.

Is one a better buy?

Both stocks still appear very expensive based on typical valuation methods, so I wouldn't back up the truck.

However, HEXO could eventually command a takeover premium as consolidation is expected to continue in the cannabis sector. If you like betting on the underdog, go with HEXO. Otherwise, Canopy Growth will likely be one of the few firms that remains standing once all the dust settles and is probably the safer bet.

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