



Should HEXO (TSX:HEXO) Stock Be a Top Pick Today?

Description

HEXO ([TSX:HEXO](#))(NYSE:HEXO) has given back most of its 2019 gains, and investors are wondering if the Canadian marijuana producer is a buy right now or should be avoided.

Let's take a look at the current situation to see if HEXO deserves to be in your [portfolio](#).

Market conditions

Every new industry goes through volatility, and the rapid rise of the [cannabis sector](#) in such a short period of time has made the ride more exciting than normal.

For the moment, the mood is negative, as recent news at some of industry's popular names is giving investors added incentive to step back from the broader group.

What's up?

The board of directors at **Canopy Growth** just ousted founder, co-CEO, and chairman Bruce Linton. The word on the street is that major shareholder **Constellation Brands** is not happy with constant losses and wants to put one of its own people in charge. Constellation Brands invested \$5 billion in Canopy Growth last year and owns a 38% stake in the cannabis giant.

CannTrust, another pot producer, just ran into trouble with Health Canada for growing plants in an unlicensed facility.

Late last year, **Aphria** came under attack by a known short-seller for allegedly making an acquisition at a vastly inflated price to the benefit of people who were connected to the management of Aphria.

In addition, the sector has faced supply challenges since the launch of the recreational market last fall, and reports that black market weed is now available for about half the price of legal pot are causing pundits to reconsider their revenue forecasts for the Canadian marijuana companies.

The CannTrust scandal should be a long-term benefit for the market, as it will force the industry to be more careful about ensuring the operations follow government rules. However, some pundits wonder if this is just the tip of the iceberg for noncompliance and mismanagement in the industry.

Impact on HEXO

HEXO, which is the market leader in Quebec, is small compared to Canopy Growth and a few of the other major players. The risk to the company could be added difficulty raising funds to grow its production in Canada and abroad. A falling stock price makes it harder to issue new shares, and finding other investors could be more difficult.

HEXO has partnered with **Molson Coors Canada** to develop cannabis-infused beverages. The two companies created a new firm, Truss, to target the market. If the iconic Canadian beer maker was considering an equity position in HEXO, that might be off the table, given the perceived frustration Constellation Brands has with its investment in Canopy Growth.

Should you buy HEXO?

The downward trend in the stock price could continue while dark clouds hang over the industry. At some point bargain hunters will enter the market, and we could see a nice pop. That's how it goes in a fledgling industry. However, valuations remain stretched at current prices, and we could see another steep move to the downside before things stabilize.

HEXO has a lot going for it and the strong position in Quebec should eventually make the company a prime takeover target. That said, I would wait for confirmation the pullback has run its course before buying the stock.

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