



Another Cannabis Opportunity Awaits the Patient Investor

Description

Cannabis stocks paved the way to some [massive investor gains](#) over the past two years, and that growth-inspired focus was a key reason for investing in the sector.

Unfortunately, much of that growth has stalled in recent months, with some prominent cannabis stocks now trading at levels not seen since the turn of the year. One such investment is **Hexo** ([TSX:HEXO](#))(NYSE:HEXO), which, despite trading near its 52-week low, remains a stellar investment option to consider.

Why Hexo is a great investment in disguise

On paper, Hexo has all the makings of a great long-term investment. Hexo has established itself as a leading supplier to several provinces and diversified into other areas such as its award-winning line of elixir sprays. The company has also partnered with **Molson Coors Canada** to produce a cannabis-infused beverage from the Truss Beverages startup.

Turning to the supply side of the business, Hexo's still recent acquisition of Newstrike brands established Hexo as one of the key players in the market. The deal also muted some of the concerns of critics that viewed Hexo as more of a takeover target for its larger peers rather than a competitor on an equal footing.

The Newstrike deal also provided Hexo with a cultivation capacity boost to a whopping 150,000 kilograms. Keep in mind that in the most recent quarter (pre-acquisition) Hexo generated just shy of 10,000 kilograms of dried cannabis.

Turning to results, in the most recent quarter, Hexo reported a whopping 1,250% year-over-year increase in net revenue to \$13,01 million. Unfortunately, most investors focused on the small, but noted decline in revenue over the previous quarter, where net revenues came in at \$13.43 million.

While the decrease warrants a closer look, investors should be mindful that this is still a very new and still volatile segment of the market, with production still ramping up. If anything, the next two quarters

should prove telling for investors, as the impact of Hexo's new production facilities and synergies from the Newstrike deal will provide a boost to earnings.

The next phase of legalization, which includes edibles, is likely to provide yet another boost to Hexo's well-diversified business into next year.

What should you do?

Given the talking points above, there's little reason to doubt the long-term potential of Hexo. The company is well positioned to thrive in the coming quarters, particularly as products come to maturation through its significantly larger production facilities. By way of example, the first harvest from that 1,000,000-square-foot flagship facility was announced earlier this summer.

Additionally, keep in mind that in the most recent quarter, Hexo stated that the company was on track to hit \$400 million in net revenue during fiscal 2020 and double net revenue in fiscal 2019.

In my opinion, Hexo remains a stellar [long-term growth](#) opportunity. While the stock is not without risk and could drop a little further before bottoming, at the current price point, investors are buying Hexo at a discounted rate not seen since the turn of the year.

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2. Investing

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