



Cannabis Investors: Should You Buy HEXO (TSX:HEXO) Stock Today?

Description

Cannabis stocks have come under pressure in recent months and investors with a bullish outlook on the [marijuana sector](#) are wondering which pot stocks might be buys right now.

Let's take a look at **HEXO** ([TSX:HEXO](#)) (NYSE:HEXO) to see if it deserves to be in your [portfolio](#).

Leader in Quebec

HEXO is based in Quebec and is the leading supplier to the province's retail outlets. The company also has a contract with Quebec to operate the distribution centre that handles sales from the province's online store.

Quebec is an attractive market and the stronghold position held by HEXO could make the company a potential takeover target for one of the larger players.

Consolidation is expected to continue as the industry matures and most pundits expect a handful of major players to emerge once all the dust settles.

Diversified operations

HEXO has also expanded beyond its core market. The company's takeover of Newstrike Brands for \$260 million earlier this year increased HEXO's Canadian reach to eight provinces.

In Europe, the company is constructing a large production facility in Greece. The site will serve as the base to supply the growing market for medical marijuana in the region.

Cannabis drinks

Canada is expected to allow the sale of cannabis edibles later this year. Companies are ramping up their inventory ahead of the opening of the market and HEXO is betting on strong demand in the drinks

segment.

The company formed a new firm, Truss, in partnership with **Molson Coors Canada** to develop and sell cannabis-infused beverages.

Estimates vary as to how cannabis drinks will impact the beer and wine market, but some pundits say the new entrants could steal significant market share. If cannabis-infused drinks really take off, HEXO could be one of the big winners.

Stock price

At the time of writing HEXO trades at \$6.50 per share. That's up nearly 25% in the past two weeks, but well off the 2019 high near \$11 it hit in late April.

Bargain hunters appear to have come back to the stock and short sellers are probably booking some profits.

The company has a market capitalization of about \$1.7 billion, which is expensive based on most traditional valuation metrics, but marijuana stocks appear to trade in a different sphere, so it is difficult to determine a fair value for the company.

Risk

Volatility should be expected and a broad-based downturn in the overall stock market would likely hit all of the marijuana stocks hard due to their lofty valuations.

Should you buy?

I wouldn't back up the truck, given the broader market uncertainty right now.

However, investors who have a long-term bullish view of the sector might want to start nibbling on HEXO. The company could become a takeover target in the coming months and management has done a good job of positioning the business for growth in the key segments of the industry.

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