



## 2 Cannabis Stocks to Keep an Eye on This Fall

### Description

The cannabis market has experienced a seismic shift over the past few years. Sales have grown at an exponential rate, and many of the top firms in the sector have seen their share prices skyrocket. Thankfully, it isn't too late for those looking to profit from this rare opportunity. The cannabis industry is projected to keep growing, both in North America and abroad.

However, with the recreational market at risk of suffering from a supply glut — not to mention its comparatively low margins — investing in companies that are well positioned to profit from different market segments is a good idea. Consider, for instance, the market for cannabis-based products, which will become legal in Canada sometime in the fall. This market arguably offers much better prospects than the recreational market.

Let's look at two companies that are ready to take off once Canada finally makes cannabis-infused foods and drinks (as well as vapes and other products) legal.

### Making all the right moves

**Hexo** ([TSX:HEXO](#))(NYSE:HEXO) [made some noise](#) in March with its acquisition of **Newstrike Brands**. The acquisition helped Hexo significantly improve its peak production capacity. This should come in handy later down the line for the firm. Hexo has a supply agreement with the province of Quebec, the largest such agreement in the industry. The deal is to supply Quebec with 200,000 kilograms of cannabis over a five-year period. With a significant market share in one of Canada's most populated provinces, Hexo is relatively well positioned in the recreational segment. But the company is also in a good position to profit from the derivative market.

Hexo has had a partnership with one of the world's largest brewing companies, namely **Molson Coors Brewing**, for about a year. This partnership gave birth to **Truss Beverages**, a company that specializes in the creation of cannabis-infused drinks. These will likely include cannabis-infused beers, hot beverages, and even water. Hexo owns 42.5% of this standalone venture and appointed two members to its board of directors, while Molson owns 57.5% and appointed three members.

Its partnership with Molson Coors aside, Hexo is planning to offer other products such as edibles and vapes once they become legal. The company's team includes scientists and researchers with

“extensive experience in major consumer packaged goods companies.” In short, Hexo is ready to take on this high-margin opportunity.

## Flying under the radar

Much like Hexo, **Auxly Cannabis Group** (TSXV:XLY) managed to land a big-name partner. The British tobacco company **Imperial Brands** invested \$123 million by way of a debenture convertible and acquired a 19.9% ownership in Auxly. It is a bit surprising that Imperial Brands did not choose a better-known pot firm to enter the market. However, Auxly presents several advantages to prospective investors, particularly due to the sheer breadth of its operations. The firm’s business reaches the farthest corners of the marijuana sector.

More importantly, though, Auxly is in a great position to take on the cannabis derivative market once it opens. The firm’s newly formed partnership with Imperial Brands will serve as a stepping stone to its entrance into this market.

Auxly will use the funds it acquired in the transaction to put its strategic plans in motion, and Imperial Brands will grant Auxly “global licences to its vaping technology for cannabis use and access to its vapor innovation business.” Auxly will have a variety of cannabis derivative products on the shelves come December and will continue to partner with Imperial Brands in an R&D capacity to expand its product offerings. Auxly’s stock may be cheap — less than \$1 at writing — but the firm could be an excellent pick for investors.

## The bottom line

There are many other pot companies that will benefit once the Canadian government opens the door to these new products. But for those looking to jump on the bandwagon, looking at Hexo and Auxly Cannabis is a decent place to start.

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### Date

2025/08/25

### Date Created

2019/08/22

### Author

pbakiny

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