



## Is HEXO (TSX:HEXO) Stock a Buy Today?

### Description

The pullback in the marijuana sector over the past four months has contrarian investors wondering which [pot stocks](#) might be attractive right now to add to their portfolios.

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

### Diverse business lines

HEXO might be small compared to some of its Canadian peers, but the company has done a good job of getting a foothold in most of the segments pundits see as offering the best growth potential.

HEXO is the leading player in Quebec and, through its takeover of Newstrike, has agreements in place with eight Canadian provinces. This gives it access to medical and recreational pot sales in all the core Canadian markets.

The launch of the edibles market is fast approaching, and cannabis-infused drinks are considered to be one area that could see significant demand and growth. Beer, wine, and spirits companies have made investments in cannabis companies or secured partnerships with the producers in an effort to hit the ground running in the event people actually shift to cannabis-based drinks.

HEXO and **Molson Coors Canada** have teamed up to form Truss. The new company is developing cannabis-infused beverages to market to Canadians once the government gives the segment the green light. The partnership makes sense, as Molson is one of Quebec's oldest companies, and the beer company has access to the entire Canadian distribution network.

Accessories and other products, including cosmetics and vapes, are part of HEXO's portfolio. The company has part ownership in a two-million-square-foot facility in Ontario that is being used as a core development, manufacturing, and distribution hub.

On the production side, HEXO completed a new one-million-square-foot facility in Quebec earlier this year. The added capacity should enable the company to meet demand for its products.

Finally, HEXO is preparing to take a chunk of the growing medical marijuana market in Europe by setting up a production facility with a partner in Greece. The site will be used as the base to serve medical-marijuana orders across the region as the various European governments adjust their cannabis policies.

## Risks

HEXO trades at close to \$5.50 per share compared to more than \$11 near the end of April. The steep slide isn't unique to HEXO, but it shows the volatility that continues to be a part of the cannabis sector.

At the current price, HEXO has a market capitalization of less than \$1.5 billion, which is still expensive for a company that had net revenue of \$13 million in the most recent quarter and isn't yet profitable.

Investors are adjusting their growth expectations for the sector, and that could put additional pressure on valuations in the coming months. Another broad-based correction in equity markets similar to what we saw late last year would also hit HEXO and its peers.

## Opportunity

HEXO could be come the target of a takeover. In the event a battle ensues, investors might see a nice acquisition premium emerge. Consolidation is expected to continue in the industry, and HEXO should be a good fit for one of the larger players, especially given its strong position in Quebec and its drinks partnership.

## Should you buy?

The stock is certainly more attractive at \$5 than it was at \$11, but I would stay on the sidelines until the pullback has definitely run its course. HEXO has a lot of positive parts to its business and should do well over the long haul if it can remain independent.

For the moment, the trend isn't your friend, and there could be a better entry point in the coming weeks or even months.

Emerging firms that are involved in the cannabis sector, but are not producers, might be the way to go today.

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