



## Contrarian Investors: Should You Buy HEXO (TSX:HEXO) Stock Right Now?

### Description

Contrarian investors are constantly searching for [troubled stocks](#) that might offer a shot at some big gains once the industry improves or when management finds a way to turn the situation positive.

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

### Overview

HEXO traded as high as \$11 per share near the end of April. Investors can now pick up the stock for less than \$6. The drop is more a function of a broad-based sell-off in [cannabis stocks](#) rather than any specific problem with HEXO.

The same can't be said for a few of its peers, who have taken much larger hits due to troubles with regulators. A number of high-profile CEOs and founders have been forced to leave their positions this year for a variety of reasons.

The departures have put a sour taste in the mouths of marijuana stock investors, and the market might be going cautious on the fears that the problems emerging at firms like **Namaste**, **Aphria**, and **CannTrust** might be just the tip of the iceberg.

This could provide investors with an opportunity to buy the other beaten-up stocks, and HEXO is likely a good candidate.

The company is the leading producer and supplier in Quebec. It also has licenses to supply seven other provinces, thanks to the extra exposure it picked up through the acquisition of Newstrike Brands. This gives it a solid presence in both the recreational and medical marijuana markets across the country.

In addition, HEXO is gearing up for the launch of the edibles market, with a specific focus on cannabis-infused beverages. The company has partnered with **Molson Coors Canada** to develop and eventually market cannabis drinks to Canadians. If the beverage demand takes off as some analysts

predict, HEXO could see big profits at its drinks partnership, Truss.

Internationally, HEXO is building a production facility in Greece. The potential for medical marijuana sales in the European market is massive and HEXO is preparing to take a piece of the pie as the regional governments modify their cannabis regulations.

## Risks

HEXO still looks expensive, even after the large drop in the share price, as is the case for nearly all of the marijuana producers. Investors may therefore start knocking down valuations as demand for profits starts to drive momentum.

## Opportunity

HEXO could become a takeover target. The current market capitalization of \$1.5 billion puts it well within striking distance of its larger peers. Consolidation has cooled off in the sector, but that might not last long. HEXO's head start on drinks and its stronghold in Quebec should make it an appealing addition to your portfolio.

In the event a bidding war emerges, the stock could catch a nice tailwind.

## Should you buy the stock?

Cannabis bulls might want to start nibbling on HEXO at the current price. The sector has a tendency to make big moves in a short time frame, and the next leg to the upside could be significant. That said, I would keep any speculative position small as a percentage of your overall portfolio.

If you're not keen on the producers, there are other stocks in the sector that are poised to benefit from the launch of the edibles market.

### CATEGORY

1. Cannabis Stocks
2. Investing

### TICKERS GLOBAL

1. NASDAQ:HEXO (HEXO Corp.)
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