



## HEXO (TSX:HEXO): Buy the Stock or Bail Out?

### Description

Marijuana stocks have had a rough run over the past six months, and investors are wondering if the pullback in the share prices of pot stocks is an opportunity to buy today or a signal to get out before more downside occurs.

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 is an interesting player in the cannabis sector. The company doesn't get the same attention in the media as a few of its larger [peers](#), but management has done a good job of positioning the business for success.

HEXO is the leading marijuana company in Quebec, with the largest contract to supply the province with cannabis for its retail locations. HEXO also has a contract with a partner to manage the distribution of cannabis sales that come through Quebec's online store.

HEXO made an early move to get ready for the launch of the edibles market, which would include beverages. The company has partnered with **Molson Coors Canada** to create a new subsidiary, Truss, that is working on the development and future marketing of cannabis-infused drinks.

Initially, you might wonder why Molson Coors Canada chose tiny HEXO over one of the larger pot companies, but a quick history check provides the answer. Molson is one of Quebec's oldest firms, and its beer brands are popular in the province, as well as across the rest of the country.

HEXO is also positioned well in other parts of Canada. The company's acquisition of Newstrike Brands extended the firm's reach that now includes supply agreements with eight provinces. In addition, HEXO is part owner of a two-million-square-foot facility in Ontario that it will use as a hub for the development and distribution of a wide variety of cannabis products and accessories.

Management has taken steps to tap international markets as well. The company is constructing a

production facility in Greece with a local partner. The site will be the base for supplying medical marijuana to patients around the region.

Europe is a very large market, and governments are going through the process of adjusting their marijuana regulations.

Back in Canada, HEXO completed its new one-million-square-foot production facility in Quebec earlier this year and is ramping up production to meet recreational and medical marijuana demand, while also stocking up on product needed for the company's edibles offerings.

## Should you buy?

HEXO currently trades for \$5.25 per share. That's roughly 25% above the low it hit last December but well off the \$11 it fetched in late April of 2019.

In the last earnings report, the company indicated it is on track to hit net revenue of \$400 million in fiscal 2020. If that turns out to be the case, and HEXO can start turning a profit, the stock might be an attractive pick today.

Investors, however, should be careful. Recent earnings reports from a number of the other leading Canadian cannabis companies have disappointed the market, and their stock prices have taken a hit as a result. A miss on expected sales or a reduction in the guidance could trigger a sell-off when HEXO's next report comes out in October, so investors might want to wait to see what happens before buying the stock.

The pullback across the industry could continue in the near term, especially if the broader equity markets hit a rough patch heading into the end of 2019, as they did in Q4 last year.

That said, HEXO currently has a market capitalization of \$1.3 billion, so it could become a takeover target for one of the bigger players. A bidding war is not likely, but an offer would probably still result in a nice premium from today's price.

If you already own the stock, you might as well hold.

For investors who are a long-term cannabis bulls and looking to buy, HEXO is making all the right moves, but I would wait for the next earnings release before taking the plunge.

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1. Cannabis

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1. NASDAQ:HEXO (HEXO Corp.)

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