



Looking to Pick Up Cheap Weed? This Company May Be for You

Description

I've been hesitant to consider the incredible parabolic increase of any Canadian cannabis producer to be sustainable over the long-term, and would like to reiterate that sentiment.

In no way do I feel the bear market in cannabis is even close to capitulating to financial markets and investors whom I believe have grown more intelligent with respect to story versus substance.

That said, one company I have liked for [some time](#) is **Hexo Corp.** ([TSX:HEXO](#))(NYSE:HEXO) for a few key reasons.

A focus on profitability

First, and foremost, Hexo has shown a serious commitment to achieving profitability over insulating its growth story, a sentiment I don't see reflected in any other pot producer at this point in time.

The company continues to streamline its organization with a laser-like focus on hitting real and sustainable profitability, rather than the paper gains other producers have seen from wacky Canadian accounting rules related to counting inventory as income.

Hexo recently announced that it's laying off roughly 200 people across its organization — a survival move amid an industry that remains rigid when it comes to accepting the reality that investor's aren't buying the story anymore.

The "growth at all costs" model most cannabis producers have employed to enrich themselves and other early shareholders is one which has historically proven to befall entire sectors.

I've compared the recent cannabis bubble to that of the tech bubble in the early 2000s, and I really do believe when it's all said and done that the deflation share prices will see when we do hit bottom could far surpass the lows we saw in the tech sector less than two decades ago.

Revenue stability

Another key reason I like Hexo is the fact the company has secured numerous contracts with provincial buyers and has done a very good job of establishing itself as one of the key cannabis players despite its smaller size relative to the bigger players in the industry.

Additionally, the company's [pricing strategy](#) with respect to its product, as highlighted by fellow Fool contributor Aditya Raghunath, has focused on driving out the illegal market by targeting the lower end of the price spectrum — something I've not seen done on the same scale in Canada.

I see a realistic and long-term runway for Hexo to grow, and while the company will struggle with maintaining profitability given its pricing strategy, over the long-term, Hexo's leaner and meaner business model will outperform other players.

Bottom line

Hexo has slashed its forecast for the remainder of the year, and is now withdrawing its forecast for next year — moves that I believe to be financially prudent given the inability of Hexo or any other cannabis producer to hit ridiculous targets.

My take is that other cannabis producers may try to continue to spin growth, but when the time comes to show said growth in 2020 and beyond, they will be the producers holding the bag at the end of the day.

Stay Foolish, my friends.

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