Forget Aurora (TSX:ACB) Stock: 1 Cannabis King to Buy Instead

Description

Down 13% in the last five days at the time of writing but with revenue set to rise by around 34% annually, **HEXO** (TSX:HEXO)(NYSE:HEXO) is a classic contrarian stock that could still take the Canadian cannabis sector by storm – provided the Ontario retail landscape can be rejigged before U.S. legalization that is.

With a comprehensive range of Cannabis 2.0 products offering a diversified business model, HEXO is an intriguing prospect for upside.

In terms of value, it may surprise investors who have been on the fence with cannabis stocks that up until now HEXO stock trades with a P/B of 0.73.

Looking back at the overvaluation and hype of this sector leading up to legalization, investors can see that Hydropothecary stock, as it was once known, traded at three times its book price. It's quite the turnaround, signifying a far better play for the cautious investor seeking upside in the legal cannabis space.

Having lost 76% of its value in the last 12 months, HEXO is close to bottoming out — and could have hit that point already. The case for buying on weakness is therefore about as good as it's going to get, indicating a fairly strong buy for those bullish on a second "green gold rush." While a high target price of $10 is optimistic, it shows how high this stock could potentially climb.

With cannabis edibles, drinks and the whole gamut of other cannabis product types representing a valid long-term growth sector, there is clearly an intriguing thesis for capital gains in the Canadian weed space. The question now is patience and profitability rather than high momentum.

With its P/B of 0.67 and 12-year plummet by 76%, **Aurora** (TSX:ACB)(NYSE:ACB) doesn't look too dissimilar from HEXO at a glance. However, it's a long way off its low value price, so if it's a bargain pot stock you're after, you should stick with HEXO.

Trading at $2.22 at the time of writing, Aurora is still overvalued and has a consensus “hold” rating. A mean target of $3 shows where Canadians should be ditching this stock.

Why should investors sell Aurora stock? With a disappointing recent quarter and more bad news likely to come, Aurora is something of a falling knife – even if its last week’s brief rally disguised the fact.

More insiders have been buying HEXO shares than selling in 2020, while Aurora’s inner circle have been ditching theirs, showing the lay of the land in terms of confidence.

With plummeting revenue across business segments, Aurora is a long-term sell – the polar opposite of popular cannabis pick HEXO, which is more than worthy of a long position in a **TSX** stock portfolio’s cannabis segment at its current valuation.

The bottom line

Getting a head start in terms of Canadian growth is still a primary objective for domestic cannabis producers, and HEXO could deliver. Conversely, expect a few more quarters of pain for Aurora.

Meanwhile, however, there could be further to fall; HEXO is close enough to its low target of $1.50 to begin buying in increments and doubling down on further weakness.

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