



## 2 Risky TSX Stocks to Bet on Amid Biden's Victory

### Description

On November 7, Democratic nominee Joe Biden defeated Donald Trump in the fiercely fought presidential election. Biden's victory is good news for cannabis companies, as he favours adult-use cannabis decriminalization and legalization of cannabis for medical use. Meanwhile, with Republicans still controlling the Senate, cannabis legalization at the federal level could be challenging.

However, the SAFE (Secure and Fair Enforcement for Mortgage Licensing) Banking act could soon become a law, which would allow banks to transact with cannabis companies without the fear of federal prosecution. This act would allow cash-starved cannabis companies access to capital at a low interest rate.

Further, last week Arizona, South Dakota, New Jersey, Montana, and Mississippi voted in favour of legalizing some form of cannabis. Overall, 35 states have currently legalized medical cannabis, while 15 states have legalized cannabis for adult-use or recreational purposes.

So, amid the favourable events, I believe investors with a higher risk appetite could buy **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) and **HEXO** ([TSX:HEXO](#))(NYSE:HEXO) for superior returns. Earlier, [I was bearish on both the stocks](#). However, amid the recent favourable developments, I have turned bullish on these stocks.

### Aurora Cannabis

Aurora Cannabis stock has surged by over 119% in the last two days amid the renewed interest in the cannabis sector. Despite the strong rise, the company still trades around 62% lower for this year.

Amid the expectation of high demand for cannabis, Aurora Cannabis invested heavily in acquiring several businesses in the last few years. However, the lower-than-expected demand due to thriving black market sales and slow rollout of retail stores in Canada forced the company to write down billions of dollars as goodwill impairment charges. Further, the company has raised capital several times through new equity offerings in the last few years due to its weakening cash position, leading to dilution of stock value. All these factors have weighed heavily on its stock price.

Meanwhile, in the June ending quarter, Aurora Cannabis showed some improvement with its SG&A (selling, general, and administrative) expenses and adjusted EBITDA losses coming down. Its revenue from medical cannabis increased 4% sequentially, driven by growth in Canadian and European markets. Amid the growth in its value segment sales, its recreational cannabis volumes increased. However, its revenue declined due to lower selling price.

The company's management is hopeful of achieving positive EBITDA by the second quarter of fiscal 2021. Further, if the SAFE Banking Act becomes a law, it could lower the company's borrowing cost and improve its profitability.

## HEXO

In the last two days, HEXO is up over 40%. However, it is down by 44% for this year. Like Aurora Cannabis, its high cash burn and the dilution of its stock value due to raising of capital through new equity offerings have dragged its stock down.

Meanwhile, HEXO reported a 17% growth in its gross revenue in the [July ending quarter](#). The introduction of vapes and cannabis-infused beverages and the increase in its international medical cannabis sales drove the company's top line. Meanwhile, its gross margins before adjustments declined from 40% to 28% due to increased operating and overhead costs associated with the launch of cannabis-infused beverages.

Its adjusted EBITDA losses fell from \$4.1 million to \$3.25 million. Further, the management added that the company is on track to report a positive adjusted EBITDA in the first half of fiscal 2021. However, the company's net losses of \$169.5 million in the fourth quarter is a cause of concern.

## Bottom line

New Frontier Data projects the cannabis sales in the United States to reach US\$35 billion by 2025 from US\$12.1 billion in 2019. Further, the five states that legalized cannabis last week could add another US\$3.3 billion. Both Aurora Cannabis and HEXO have significant exposure to the U.S. cannabis markets.

So, given the growing addressable markets and the steep decline in their stock prices, Aurora Cannabis and HEXO can deliver superior returns.

## CATEGORY

1. Cannabis Stocks
2. Investing

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1. Editor's Choice

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2. NASDAQ:HEXO (HEXO Corp.)
3. TSX:ACB (Aurora Cannabis)
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