



Hexo Stock Will Go Parabolic! Here's Why...

Description

The Canadian cannabis sector has [fizzled](#). Investors are underwhelmed, as are consumers. The hysteria that rocked the Canadian stock markets in 2017 and 2018 has calmed down to an almost eerie level. Many investors may feel as though this ship has already sailed. This is because of the valuations most cannabis players have garnered in the market today.

That being said, one key catalyst on the horizon could change the investing equation for those looking for parabolic growth in a sector ready to take off.

Cannabis beverages are the future

Cannabis-infused beverages have made a significant impact on investors' view of this sector. **Hexo** ([TSX:HEXO](#))(NYSE:HEXO) is a company I have liked for some time for a number of reasons. One of the key drivers I see behind Hexo's long-term growth is its Cannabis 2.0 line.

Hexo just passed **Canopy Growth** as the leader in market share in the cannabis-infused beverage space. Currently, Hexo owns more than one-third of the overall market. This growth in a young sector has increased expectations among many investors, me included.

Cannabis-infused beverages and other value-added products are the future of growth in this sector. Revenue and bottom-line profits will be correlated with such value-added products. Thus, cannabis as a standalone commodity will just not cut it. Margins are likely to remain limited to supply and demand. Given the economic realities around commodities, cannabis producers need to look to add value wherever they can.

Market is growing

The bad news is that cannabis-infused beverages represent a small fraction of total sales right now. According to cannabis retail data provider *HyFyre*, cannabis-infused beverages make up only 1.5% of the total cannabis market to date.

The good news is that this market is growing fast. Hexo's Truss Beverages joint venture with **Molson Coors** in November is a key catalyst for this growth. I think this partnership is well on its way to ensuring Hexo's market lead. Hexo's ability to take a market share lead after only three months of sales is impressive.

Changing consumer preferences are a big positive

Canadian consumers are taking time to adjust to new cannabis products. The majority of Canadians have not yet tried a cannabis-infused beverage. This is both a good and a bad thing for Hexo investors. As the company grows its market share, when the market grows, Hexo is in a great position to capture parabolic growth.

These Cannabis 2.0 products are expected to see increased adoption in the coming quarters. Accordingly, I expect Hexo's results to reflect these changes in consumer preferences. Therefore, I would encourage investors to closely monitor Hexo's quarterly results moving forward.

Bottom line

Growth is still the key metric driving stock prices in the cannabis sector. Cannabis-infused beverages and other 2.0 products are essential to this growth. Investors ought to keep stocks like Hexo on their watch list moving forward. For aggressive investors seeking growth, Hexo is a top pick of mine in this space right now.

CATEGORY

1. Cannabis Stocks
2. Investing

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