



Why Hexo Stock Remains a Top Cannabis Pick Today

Description

Hexo ([TSX:HEXO](#))(NYSE:HEXO) is an [intriguing cannabis stock](#) to assess right now. Indeed, Hexo's stock chart is pretty incredible to look at. Similar to its Canadian peers, Hexo remains well off its speculation-fueled peak in 2019, where the stock was trading well in excess of \$40 per share. Today, investors can pick up Hexo stock for around \$8.50 at the time of writing.

The more recent near-term chart for Hexo looks a lot better. On a year-to-date basis, Hexo stock is up more than 65% at current levels. Like the sector, Hexo has gotten a boost from favourable sector-specific fundamentals and improved sentiment in this space.

For those who believe another hyper-growth bull market in cannabis can once again materialize, Hexo is certainly a stock worth watching. Here's why this stock is one of the few cannabis players I'm watching right now.

Massive deal provides lots of upside for Hexo stock

Acquisitions have been the name of the game in the cannabis space. For Hexo, this has certainly been true of late.

The Canadian cannabis player recently announced it will acquire **Redecan Pharm** in a massive deal. Hexo will pay \$400 million in cash and another \$525 million in shares to instigate this tie-up.

This acquisition appears to be aimed at capturing more domestic market share in Canada. The playing field continues to be a crowded one in the Canadian licensed recreational pot business. However, this merger cements Hexo's position in the Canadian market. Indeed, for those bullish on the growth of recreational cannabis domestically, this could turn out to be a good move.

Valuations in the cannabis sector have decreased substantially of late. Accordingly, the timing of this deal could prove to be fruitful if we get another multiple expansion in this sector. There remains a tonne of speculation baked into this sector today. However, Hexo's market position has become much more dominant as a result of this announcement.

Investors banking on more acquisitions

Hexo's market position appears to be what most investors have their eye on right now. Indeed, the fact that Hexo's stock price surged nearly 10% on the announcement of its Redecan deal signals the market is looking at this deal favourably. Accordingly, more deals could be on the horizon, particularly if they're being cheered by the market in this way.

Timing is everything with M&A activity. And the market seems to believe Hexo is striking at an opportune moment.

Hexo's other major recent deals to acquire **Zenabis Global** for \$235 million and **48North Cannabis** for \$50 million further add to the consolidation thesis with Hexo stock. Indeed, if Hexo can effectively consolidate the sector to achieve at least regional dominance, more investors may start to look at Hexo as a top Canadian cannabis play. It's fighting for market share in a very competitive market today. And until more consolidation happens, this will continue to be the case.

Bottom line

Hexo's core business is one I've liked for some time. This is a company with strong regional market share, particularly in the Quebec market.

Indeed, if Hexo can continue to expand its footprint via acquisition and manage this consolidated business well, investors could be in for a nice ride. As with all cannabis plays, Hexo remains a high-risk, high-reward option in the market today. However, looking at the price action around certain equity categories today, that seems to be what investors are after right now.

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