



HEXO Corp. (TSX:HEXO): The Next Big Thing for Canadian Cannabis?

Description

Hexo ([TSX:HEXO](#)) has been one of the biggest winners in the cannabis space so far, shooting up 11% last week and almost doubling since the start of 2019. While overshadowed by other major cannabis companies, Hexo has silently positioned itself to become the next major player in the Canadian cannabis industry.

Last week, Bank of America Merrill Lynch analyst Christopher Carey began covering cannabis stocks, and much to many people's surprise, he picked Hexo as the top pick for the industry. Outplacing both **Aurora** and **Canopy**, which were his next two choices, he described Hexo as having "the most de-risked cannabis supply in Canada" alongside strong fundamentals and being superbly positioned to take advantage of the CBD-beverage market.

Are analysts right in picking this less well-known cannabis company over other giants in the industry? Here are a few reasons why you might want to add this company to your portfolio.

Strong fundamentals

From a financial standpoint, the company blew analyst expectations out of the water with a 1,269% increase in revenue and a 144% increase from the previous quarter. Cannabis output also skyrocketed, with Hexo producing 4.938 kilograms of dried cannabis this quarter, a 40% increase from the previous quarter.

While these figures are strong by themselves, Hexo also [announced](#) that it acquired **Newstrike Brands**. The deal would see Hexo add 470,000 sq. ft. in production space while expanding its operations into eight different provinces.

Overall, Hexo is predicted to generate \$400 million in revenues in 2020, an exponential jump from its currently reported \$13.4 million in 2018. While strong revenue figures are important for investors, they aren't the only thing that impacts stock prices. Many companies have recently reported strong revenue growth only to see their shares fall due to other factors, such as an ongoing lack of profitability.

In contrast to this, Hexo has more going for it than just its revenue figures. The company's cash position is also notably strong, with the Newstrike deal adding a further \$107 million in cash while also having no outstanding debt. This would mean Hexo would have \$272.5 million in cash and cash equivalents on its balance sheet once the deal is concluded.

The CBD-beverage opportunity

While Hexo's strong fundamentals paint a compelling picture by themselves, the true opportunity for this cannabis company comes from the CBD-edibles market. Just as federal legalization of the marijuana plant back in 2018 opened the door to the cannabis industry, the upcoming CBD-edibles legalization in October 2019 will be another game changer for the industry. The cannabis beverage market alone, which is a fraction of the overall edibles market, is estimated at being worth \$4.6 billion by 2025.

Hexo is one of the best-positioned companies to take advantage of the upcoming CBD-edibles legalization thanks to its partnership with **Molson Coors Brewing**. As one of the world's largest brewers, the deal would see the duo develop their own line of cannabis-infused beverages for the Canadian market.

These kinds of partnerships are a positive sign for a company, putting Hexo on par with giants like Canopy, which also signed a [\\$5 billion agreement](#) with **Constellation Brands**. This is a big deal because there are many big cannabis companies, like Aurora, which still haven't snagged a partner to produce CBD-beverages yet.

For this reason, being able to boast a partnership with Molson is such a major positive sign. Hexo is hitting above its weight class when it comes to securing partnerships and positioning itself for future markets.

Final thoughts

Hexo has strong fundamentals and even better future growth potential precisely because of its position to enter the CBD-beverage space.

Unlike other companies, Hexo's market cap is less than \$2 billion, giving it plenty of room to grow exponentially in the years to come. With cannabis still being a young market, Hexo is a solid pick for investors looking for a long-term, hands-off, high-growth returns in the cannabis sector.

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