Why This Beaten-Down Marijuana Stock Might Still Be a Buy

Description

Hexo (TSX:HEXO)(NYSE:HEXO) hasn't escaped the recent struggles in the marijuana industry. The company has shed some 48% of its value since late April, as the largest pot firms were losing altitude with astonishing speed. However, much like other marijuana companies, there are reasons to be bullish on Hexo's prospects. The pot grower recently got a nice boost in the form of an analyst recommendation, which helped Hexo's stock pop by about 10% on Friday. Analyst recommendations aside, though, here is why Hexo is far from throwing in the towel in the vast and competitive marijuana sector.

Truss beverages

Hexo made a lot of noise earlier in the year. The firm acquired another marijuana company by the name of Newstrike Brands for $263 million. One of the motivating factors behind this acquisition was the fact that it would help Hexo increase its peak production capacity to about 150,000 kg per year. Also, Hexo holds a leading share of the cannabis market in Quebec. This is due to the company signing a five-year preferred supplier agreement to supply a total of about 200,000 kg of pot over the five-year period. This deal is the largest such provincial agreement to date, and it tips the balance in Hexo's favor.

Despite these encouraging signs, the best argument for why Hexo is still worth considering is its partnership with beverage maker **Molson Coors Brewing**. The two firms penned a deal to start a joint venture to produce and sell cannabis-infused drinks. This venture goes by the name of Truss Beverages, and it represents an opportunity for Hexo to significantly improve its financial results. After a long and arduous wait, the cannabis derivative market will finally open in Canada, which means pot companies will be able to benefit from several high-margin opportunities. Hexo has been preparing for this for months. Its partnership with a firm of the caliber of Molson Coors — with its expertise in the industry, its distribution network, and its deep pockets — puts the Quebec-based marijuana company ahead of most of its peers.

It is important to note that Hexo will be competing with none other than **Canopy Growth** in this market. After all, Canopy also has a partnership with a beverage maker. However, Hexo is planning to seek other avenues for growth. For instance, the firm is looking to enter the edibles segment by making gummies available to its customers, as the company's CEO noted in a recent earnings call. Finally, Hexo is looking to dip its toes in the lucrative vaping market, which has been gaining steam recently and promises to be one of the liveliest in the cannabis derivative market.

The bottom line

Hexo is well positioned to profit from the launch of derivative products in Canada, which makes the firm worth considering, despite its recent struggles. Of course, a lot can still go wrong, but for those willing to take a little risk, Hexo might be one of the better options in the marijuana sector.

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. Cannabis
2. Editor's Choice

TICKERS GLOBAL

1. NASDAQ:HEXO (HEXO Corp.)
2. TSX:HEXO (HEXO Corp.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Cannabis Stocks
2. Investing

Tags

1. Cannabis
2. Editor's Choice

Date
2025/08/15
Date Created
2019/09/25
Author
pbakiny