



HEXO Corp. (TSX:HEXO) Strikes it Rich in Q1

Description

Quebec-based **HEXO** ([TSX:HEXO](#)) announced its first-quarter earnings December 13 with an almost six-fold increase in net revenue to \$5.7 million from \$1.1 million a year earlier.

The big highlight: HEXO sold \$5.2 million in adult-use cannabis in the first two weeks after the October 17th legalization.

“The company continues to honour its commitment to executing on its plans, which has led to a significant portion of our first quarter’s \$6.7 million in revenue generated in just two weeks and represents more than a 500% increase over last quarter,” said HEXO CEO Sebastien St-Louis. “HEXO’s first-quarter financials highlight the remarkable pace of its adult-use cannabis sales and puts HEXO on track to generate significant revenue this year.”

Although there were and still are shortages of marijuana across the country, HEXO’s two-week numbers are an impressive reminder of how dominant the cannabis trend is.

The losses are piling up

As for HEXO itself, the increased revenue led to significantly higher losses in the quarter. In last year’s first quarter, it lost \$1.9 million on \$1.1 million in net revenue. In this year’s first quarter, it lost \$12.8 million on \$5.7 million in net revenue.

In Q1 2017, it lost \$1.72 per dollar of net revenue. In Q1 2018, it lost \$2.25 per dollar of net revenue — a 31% increase. However, on a per-share earnings basis, its loss increased by 133% to \$0.07 a share.

HEXO sold 952,223 grams of adult-use cannabis and 157,504 grams of medical cannabis in the quarter. Even though it sold six times as much adult-use cannabis compared to medical, because it’s able to get an average of \$9.12 per gram for medical pot compared to \$5.45 per gram for adult-use cannabis, the adult-use revenues were only three-and-a-half times greater.

So, yes, HEXO struck it rich in the first quarter, but the losses are beginning to pile up, just like all the other big cannabis companies.

The bigger picture

While it's nice to see HEXO selling so much pot, I don't believe that the dried leaf is going to be where it strikes it rich. Instead, I see its partnership with **Molson Coors** being the pathway to greener pastures.

As Fool contributor Andrew Walker [stated](#) recently, the two companies' Truss joint-venture partnership is only the second in Canada with a major player in the alcohol industry.

On October 4, HEXO and Molson Coors closed their joint-venture partnership, which will see former Molson Coors executive Brett Vye become CEO of Truss, reporting to a five-person board.

In July, I'd [recommended](#) that investors considering buying **Canopy Growth** stock should also buy **Constellation Brands** because both parties will benefit tremendously from their ownership and partnership ties.

In the case of HEXO, it only has a partnership with Molson Coors; it doesn't yet have an investment from the Colorado-based beer company. That said, as part of the Truss deal, it gets 11.5 million warrants that are exercisable at \$6 a share at any time over the next three years. If the partnership goes well, you can expect Molson Coors to exercise those shares and more.

Needless to say, if this partnership is a success, HEXO's sale of the dried leaf will seem like chump change in the bigger picture.

For me, HEXO, Canopy Growth and now **Cronos Group**, because of the **Altria** tie-up, are my favourite three stocks. In all three instances, I'd consider buying both the cannabis stock and the sin stock.

Call it safety in numbers.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:HEXO (HEXO Corp.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date

2025/09/30

Date Created

2018/12/16

Author

washworth

default watermark

default watermark