



Should You Buy Hexo Corp (TSX:HEXO) Ahead of Earnings?

Description

Hexo ([TSX:HEXO](#)) is expected to release its quarterly earnings later this week, and a good performance could send the stock soaring. Although the stock has risen more than 50% since the start of the year, Hexo is still far from the highs it hit back in October when it was trading at more than \$9 per share.

The upcoming quarter is going to be a big one, as it will be the first quarter that earnings will include a full three months' worth of recreational sales. In its most recent quarter, which included just a few weeks of post-legalization sales, Hexo saw revenues hit \$6.7 million, up from just \$1.1 million a year ago. Recreational sales of \$5.2 million were the main drivers of the growth during the quarter, and that number will be much more significant now.

Why the bottom line might be more important

Investors are expecting sales growth to be significant this quarter, and Hexo stock getting a boost on earnings might very well depend on how close the company is able to get to breaking even. Rising expenses have been a big problem for many cannabis companies, and finding a marijuana stock that is able to stay out of the red, without relying on other income, [is very difficult](#). And being able to do so is one way Hexo can differentiate itself from its peers and gain the attention of investors.

However, last quarter it recorded a net loss of over \$12 million, nearly double its top line. If we see that trend continue this quarter, then the stock's upside might be limited. With Hexo working on the development of [beverages](#) with **Molson Coors**, I wouldn't expect to see its costs come down any time soon. The one positive is that the company hasn't been knee deep in acquisitions like some other cannabis companies have been, which means Hexo can focus on its own operations and costs rather than having to worry about integrating other ones and incurring inefficiencies and high costs along the way.

A look at the company's track record

In three of the past four quarters, Hexo has missed expectations, and the stock has gone on to drop in the days following earnings. Ironically, the one time the company did beat on earnings, it wasn't enough to keep the stock from falling in price. However, that might not come as a shock, given that it's usually what the company says about the future and its outlook that dictates price movement, at least in this industry.

Bottom line

Ultimately, there's not enough evidence here to suggest to me that Hexo will buck the trend and turn a profit. While sales will definitely be up from a year ago, unless we see a big development or a positive update with respect to beverages, I'd be surprised if Hexo were to get a big boost from earnings.

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