



## Is Hexo Corp (TSX:HEXO) a Buy After Earnings?

### Description

Much of the investing world holds its breath whenever one of the top marijuana companies reports its quarterly earnings. Given that we're still in the early stages of the development of the industry, it's critical to pay attention to how the market develops and which companies are making a major impact. The latest major pot company to report its quarterly earnings was **Hexo Corp** ([TSX:HEXO](#)). Let's see how the Quebec-based company did.

### Hexo misses on net revenue expectations

Hexo's gross cannabis revenue was up a whopping 1,285% year over year. This much isn't particularly surprising; marijuana companies have been racking up sales recently, especially since recreational uses were legalized. However, Hexo's net revenue, which was about \$13 million, declined by about 3% quarter over quarter, falling short of analyst expectations by about \$2 million.

Naturally, this didn't bode well for investors. The firm's stock fell sharply (by as much as 8%) on the day its earnings were released. Note that Hexo actually beat on earnings estimates, reporting a net loss of \$0.04 per share as opposed to the consensus estimates of \$0.05 per share.

### Increasing production capacity

Hexo is projected to become one of the dozen (or so) cannabis companies in Canada with a production capacity above 100,000 kilograms per year at its peak. The firm will be able to produce in excess of 150,000 kilograms per year. During its latest reported quarter, Hexo produced 9,804 kilograms of dried cannabis, an increase of 98% over the previous quarter.

Further, the firm sold 2,904 kilograms of cannabis, an 8% increase from the previous quarter. Perhaps the most important news Hexo revealed was the closing of its acquisition of **Newstrike Brands Ltd** in late May. With this deal, Hexo gained access to about 1.8 million square feet of production space and 638,000 square feet of manufacturing and distribution space.

## Plans to enter the U.S.

Hexo is finally making a play to enter the U.S market. While the company is still keeping some of the details close to its vest (investors weren't told which eight U.S states the firm would do business in), Hexo did reveal that it plans on using its [partnership](#) with **Molson Coors Brewing** to start selling CBD derived products in the U.S. As a reminder, the U.S is the largest market in the world. Hexo's decision to move its operations south of the border is great news for investors.

## Strong guidance

Hexo is on track to double its revenues during the next quarter and record a net revenue of \$400 million during fiscal year 2020. To do so, the firm will no doubt leverage its increased production capacity (especially now that the Newstrike acquisition is complete), and its numerous distribution channels. These include supply agreements with various Canadian provinces. In particular, the company's five-year preferred supply agreement with the "Société des alcools du Québec" could generate in excess of \$1 billion in revenues over the course of the agreement.

## Should you buy?

I don't believe that Hexo's latest earnings report changes its fundamental investment thesis. Though the firm might have missed on net revenue estimates, it seems well positioned to take advantage of the upcoming legalization of cannabis-infused products via its partnership with Molson Coors Brewing. Also, the company is planning on entering the U.S market soon, which should raise its profile even more. Coupled with its already relatively strong domestic operations — which should be bolstered by its acquisition of Newstrike — Hexo still looks like an intriguing prospects.

### CATEGORY

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2. TSX:HEXO (HEXO Corp.)

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