



What Has Impacted Hexo (TSX:HEXO) Stock Recently?

Description

Shares of Canada-based cannabis company **Hexo** ([TSX:HEXO](#))(NYSE:HEXO) have gained 10% since the start of this month. However, the stock has been quite volatile in September 2019.

Hexo shares rose 14% in the first four trading days, as it seemed that cannabis stocks had bottomed out and would begin moving higher. But, unimpressive results from marijuana giant **Aurora Cannabis** sent [several stocks lower](#) in the last week. The [suspension notice](#) sent to **CannTrust** did not help either.

Hexo stock then fell over 14% in the last week before rising close to 11.5% on Friday.

Analyst begins coverage on Hexo stock?

Hexo shares rose by double digits on September 20 after MKM analyst Bill Kirk began coverage on the stock. Kirk has a “buy” recommendation for Hexo with a 12-month price target of \$11.5.

Hexo closed trading at \$5.84 on Friday and rose 1% yesterday. It is currently trading 43% above its 52-week low and 47% below its 52-week high.

Kirk expects Hexo’s strategic initiatives and partnerships with companies outside the cannabis sector, such as the one with **Molson Coors** to hold it in good stead. Further, Hexo also stated that it is in talks to partner with 60 other Fortune 500 companies.

According to Kirk, Hexo sales with touch \$400 million by end of fiscal 2020 (ending in July) driven by these partnerships. This is more than current analyst revenue estimates of \$329.5 million for fiscal 2020. Analysts have a 12-month average target price of \$10.36, which is 77% higher than the current price.

Upcoming legalization should drive prices higher

We have seen cannabis stocks reach record highs when recreational use was legalized in Canada last October. Now investors will be hoping the next wave of legalization will drive shares higher. Similar to peer companies, Hexo is set to benefit as edibles, vapes, and concentrates hit the shelves by end of 2019.

Hexo has a product portfolio that includes cannabis flowers, pre-rolls, and oils. It aims to become the top-branded Ingredients for Foods cannabis company in the world. Hexo wants to build a strong portfolio of consumer-centric brands.

However, this might be easier said than done. Retail or even online buyers are not brand conscious. A lot of them are, in fact, brand neutral and are loyal to the neighborhood retail store instead. Will edibles legalization help cannabis companies create a base of brand loyalists?

The verdict

We know the global cannabis market is set to grow at a robust rate. Hexo is looking for revenue growth in Europe and Latin America to drive sales in upcoming quarters. One of the company's goals is to be a top three player in terms of market share where its products are sold.

A major driver for Hexo's stock growth is its focus on profitability. While Aurora, **Canopy Growth**, and many other players are struggling with low margins and high operational costs, Hexo is estimated to post an adjusted profit in 2020.

While Hexo's earnings growth in fiscal 2019 (ended in July) will be flat, the company is expected to grow its bottom line by 170.6% in fiscal 2020. Compare this growth to Hexo's forward price-to-earnings multiple of 48, and we can see that the stock is undervalued.

Hexo stock should continue to move higher in the coming months, but a lot will depend on its fourth-quarter results, which are likely to be announced next month.

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