



## Why Hexo (TSX:HEXO) Stock Dropped 25% on Thursday and Why it Could Reverse Course Quickly

### Description

**HEXO** ([TSX:HEXO](#))(NYSE:HEXO) stock is in a free fall. From April to September, shares fell by 50%. Then, on October 10, the stock dropped 25% in a single trading session. So far, the declines are continuing. Once a \$3 billion company, HEXO is now worth just \$900 million. Investors and analysts are fleeing the stock en masse.

What happened to this former market darling? If you have the courage, now might be your chance to capitalize on a high-growth stock with a rock-bottom valuation.

### Cannabis blues

It's not just HEXO stock that's falling. **Alternative Harvest ETF**, one of the largest pot ETFs, is down 50% since the year began. The vast majority of cannabis stocks are deep in the red. From independent growers like **Green Organic Dutchman Holdings** to companies with multi-billion-dollar partners like **Cronos Group**, the entire industry is in pain.

This month, HEXO added a significant amount of additional fear to the downturn. On October 10, the company noted that quarterly results will come in well below expectations. For instance, quarterly revenue should be around \$15 million versus previous guidance of roughly \$30 million. Management is blaming "lower-than-expected product sell through."

The most concerning news was that management will be withdrawing its 2020 guidance, which had predicted sales reaching \$400 million. The market was already skeptical given analysts were forecasting 2020 revenue of only \$280 million, but the formal withdrawal still spooked investors. While early advocates were big believers in the pot market, it seems as if true growth may take several years to transpire.

### How to invest

If you've been invested in pot stocks like HEXO, you're likely hurting right now. But if you're a believer in the long-term story, it's hard not to consider shares a buy. This year, HEXO should post sales of around \$40 million. Next year, even using lowered estimates, sales should at least quadruple. By 2021, analysts expect the company to reach \$400 million in sales. That's a year later than expected, but the growth should still occur.

Looking back, the market should have expected a bumpier ride. While Canada led the way with full recreational legalization, federal legalization in the U.S. — a market that will likely be at least 1,000% bigger — could still be a decade away. To be sure, pot demand will continue to grow. Most analysts expect the market size to exceed \$80 billion by 2030, but the road to getting there won't be linear.

If you want to invest in the cannabis roller coaster, choose high-quality companies and double down when prices get cheap. While it's not a perfect story, HEXO is still moving forward with its plan to become the pot market's first platform company. By next year, any external business will be able to use HEXO to create safe, effective, and regulatory-compliant cannabis products. It's already forged an agreement with **Molson Coors Canada**, and management expects many other Fortune 500 companies to join.

Emerging industries like pot will remain volatile. Know which companies you believe in and have the courage to buy when others are fearful. For HEXO stock, that time appears to be now.

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rvanzo

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