



What Impacted Hexo (TSX:HEXO) Stock This Month?

Description

Shares of Canadian marijuana company **Hexo** ([TSX:HEXO](#))(NYSE:HEXO) have been volatile, to say the least. The stock is trading at \$3.52, which is 70% below its 52-week high. We saw that [the stock was decimated on October 10](#) when it lost 23% after providing preliminary fiscal fourth-quarter 2019 (ending in July) estimates and withdrawing its outlook for fiscal 2020.

Hexo launched a product to take on the illegal market

I [had identified the impact of cannibalization](#) from Canada's illegal marijuana market as a major threat for publicly listed cannabis stocks, including Hexo. The illegal market accounts for 40% of total marijuana sales in Canada due to lower product prices. This is resulting in high inventory levels for the legal players.

Last week, Hexo launched Original Stash, a value brand priced at \$4.49 per gram. Hexo believes that several buyers are unaware that they are purchasing products from illegal websites and aims to educate the consumers. Will this move help to shift cannabis sales away from the illegal market and result in incremental sales for Hexo?

Cannabis 2.0: A key driver?

Last year, Hexo partnered with **Molson Coors Canada** to form a joint venture (JV). The two companies are eyeing opportunities in the non-alcoholic, cannabis-infused beverages vertical. The JV will start selling a variety of drinks by the end of 2019.

Canada legalized cannabis-infused edibles, vapes, and concentrate products on October 17, 2019. Hexo and Molson Coors will also look to expand in the U.S. where these products are already legal.

According to a Deloitte report, the alternative cannabis market is estimated at \$2.7 billion annually. Cannabis extract-based products including edibles will lead the alternative marijuana market and account for about \$1.6 billion in sales.

The report states, “11% of Canadians already consume cannabis edibles and other alternative products, and 13% of Canadians are expected to buy them, as edibles and other alternative products that offer a more discreet and accessible way to consume cannabis and avoid any stigma surrounding smoking cannabis.”

Deloitte further claimed that around 25% of Canadians are likely to consume cannabis edibles and related products, which will create new growth opportunities in this space. Though these products have been legalized, companies and consumers will have to wait till December 16 for retail purchase.

Cannabis is a highly regulated industry, and the framework for edible sales will continue to evolve over the next few months. Deloitte expects the global cannabis market to grow from \$100 billion in 2019 to \$194 billion in 2025.

Uncertainty over vaping products

Hexo stock fell 5.5% on October 18 after a *New York Times* article reported that vaping giant Juul Labs has suspended e-commerce sales of flavoured e-cigarettes. The Food and Drug Administration has accused Juul of misguiding consumers as the latter advertised its products as a safe substitute for cigarettes.

The vaping products have taken a massive hit in recent times after multiple deaths in the U.S. were attributed to vapes, and this scandal sent cannabis stocks significantly lower in September. Now, the latest announcement by Juul further dented these companies.

Marijuana companies were hoping for cannabis 2.0 to drive stock prices to record highs. Instead, Hexo and peers are trading at 52-week lows. Most cannabis companies have invested heavily in research and development of vape products. But now they might be impacted by tepid demand.

Will Hexo stock rebound heading into 2020? Analysts remain bullish and have a 12-month target price of \$6.26, which is 74% above its current price.

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araghunath

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