



Will HEXO (TSX:HEXO) Stock Bounce Back?

Description

It's been quite the time for **HEXO** ([TSX:HEXO](#))(NYSE:HEXO) investors. In quick succession, HEXO dipped with the market post-**CannTrust** controversy, faltered on the vaping crisis, [lost its CFO](#), withdrew its earnings outlook, announced a 200-deep staff cut, launched a market-penetration brand, and got the green light from Health Canada for a fresh batch of licences.

This is a pretty remarkable run of headlines considering that, at the start of the week, HEXO still hadn't released its delayed full-year results. However, with the release of its Q4 out there for all to see, investors may now be wondering whether the bleeding will finally be staunched.

Mixed results with some strong, positive notes

Considering that the stock had five-day losses of 14% heading into midweek and has lost an enormous 44.86% over the course of the last four weeks, its revenue beat, new licences, and a new brand aimed at tackling the black market head on may not go quite far enough to claw back losses in the short term.

For instance, while a 992.2% year-on-year revenue beat looks outstanding at first glance, this reflects the first year of sales in a newly legalized industry, representing a swell of consumer interest that may not be sustainable in the long term.

Pre-market action this morning was already slicing more value off HEXO's share price. However, despite the run of negative headlines, the positive notes in its Q4, such as that revenue beat and the Original Stash launch, shows that HEXO could remain a strong contender for dominance in the cannabis market going forward.

Legal cannabis could be a long play

Pre-legalization, pot stocks were a great way to get rich quick, as investors rushed towards a brand-new sector dripping with upward momentum and dominated by potentially gravity-defying market leaders. While the industry's subsequent cratering post-legalization is far from the dotcom bust that

some pot bears were calling for, the sell-off has been exceptionally deep.

Bringing the industry up to speed is going to take more time and money — and with it, a lot of patience. While the run up to legalization saw investors salivating at the high expectations of weed companies, momentum is giving way to the sobering realities of an industry still working towards profitability while hampered by a staggering rollout strategy.

Marijuana producers could find that financing could be an issue going forwards, as could production costs. Other issues facing consumers could include a [mixed response to Cannabis 2.0](#), the ongoing low level of retail outlets, packaging and marketing restraints imposed by Health Canada, and the battle for market share against black and grey markets.

The bottom line

HEXO has a viable business model, and while the legal marijuana environment has been particularly volatile, the pot producer's focus on branding, its range of cannabis asset types, and position in the market make for a solid play on value going forwards. As the market stabilizes, HEXO is well positioned in the long run to capitalize, and investors who get in now could see their shares appreciate in value.

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