Hexo (TSX:HEXO) Stock Down 58% in 1 Year: Avoid it or Buy the Dip?

Description

You may have noticed that **Hexo** (TSX:HEXO)(NYSE:HEXO) shares have cratered, dropping over 58% over one year. Many other cannabis company stocks have also experienced a decline in value, despite some recovery in the industry through the previous month.

While this is terrible news for any investors holding the stock, it may be an opportunity for you to buy the dip. The only question then remains: which marijuana stock will be the first to climb out of the rut?

What's up with Hexo?

Hexo recently laid off 200 employees, including its chief manufacturing and chief marketing officers. Furthermore, guidance for the fiscal year 2020 was also withdrawn, which was enough to cause panic. The company explained in a news release that the delay was due to the private placement of $70 million worth of unsecured convertible debentures at an 8% rate.

Hexo CEO Sebastien St-Louis said that the move was made to rightsize the company to reach revenue expectations for fiscal year 2020. The CEO also blamed slow government approvals for derivative cannabis products and an anticipated pressure on pricing.

Although it has been more than a year of legalized use and sale of marijuana, the growth of the cannabis industry has been slow, mostly because of a black market. As a result, some provinces still have very few licensed stores, and getting approval is very difficult.

Silver linings for Hexo

Hexo does have some strategic advantages, in particular, some $230 million in net cash that makes this company especially attractive to investors. Add to that, Hexo has a joint venture with **Molson Coors Canada**, which provides an excellent distribution network and a background in consumer packaged goods.

A contract between the company and Quebec is also an added bonus that sets Hexo above other major marijuana companies. Considering that part of the reason for the glacial approval of licences is that provinces don't share in tax revenue, and that Quebec holds almost a quarter of Canada's population, Hexo had a lot more promise for long-term growth.

Which company has the most potential to come out on top?

There wasn't a single cannabis stock that didn't suffer from Hexo's news release, but one company has shown amazing resilience — **Aphria**. The company announced its second consecutive profitable quarter with net income for Q1 of fiscal 2020, clocking in at $16.4 million up from $1 million for Q4 2019. Adjusted EBITDA came in at $1.3 million for the quarter, and share prices responded positively.

Following Hexo woes, APHA share prices also experienced some faltering but now seem to be stabilizing. The combination of excellent financials and an excellent outlook for fiscal year 2020 means that this is the company most likely to come out swinging first.

Foolish takeaway

If you're looking for a company with the promise of upside after this dip, Aphria is likely a better choice than Hexo. Caution is warned for any stocks in marijuana right now, as investors have cooled off on the sector drastically.

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