



What's Next for Hexo (TSX:HEXO) Investors After an 80% Decline Since May?

Description

Shares of **Hexo Corp.** ([TSX:HEXO](#))(NYSE:HEXO) are trading at \$2.35 at writing, which is almost 80% below its 52-week high of \$11.29. What's driven the stock lower in recent months?

Several cannabis stocks rose to record highs between October 2018 and May 2019. The euphoria over the legalization of recreational cannabis in Canada was the primary driver of the stock prices.

However, investors then started getting wary about the high valuations of these companies, which started the bear run. A few marijuana firms were also impacted by regulatory issue, raising questions about the ethical standards of publicly listed companies in this space.

Just as investors were getting ready for Cannabis 2.0, the vaping scandal in the U.S. triggered another round of collapse in cannabis stocks. The slow rollout of retail locations and the rampant competition from the illegal market haven't helped either.

Hexo stock slumped 23% on [October 10 after revising its quarterly guidance](#) for the fiscal fourth quarter of 2019 (ended in July) lower and revoked its forecast for fiscal 2020.

Last week Hexo stock fell over 20% as several pot companies, including **Canopy Growth** and **Aurora Cannabis**, reported sales below consensus estimates.

Clearly, the cannabis market is struggling to keep up with growth estimates that have extended this bear run.

Hexo aims to grow market share in Canada

Hexo wants to be one of the top cannabis players globally with the aim of increasing market share in Canada. It has already established a strong presence in Quebec and now wants to replicate this success at the national level.

The company's press release states, "Our objective is to execute on our existing supply agreements

and arrangements with entities across nine provinces, and to successfully manage our distribution centre responsible for all SQDC online sale cannabis distribution.”

It added, “We also possess a strategic relationship with the private cannabis retailer Spirit Leaf. This private retail presence will allow us to expand our expected distribution presence within these provinces.”

In the July quarter, Hexo acquired Newstrike Brands to gain traction in Canada’s adult-use marijuana market. It also acquired several supply agreements and a private retail partnership to grow its distribution network.

In order to tackle competition from the lower-priced products in illicit markets, Hexo launched Original Stash, [a value brand priced at \\$4.49 per gram](#).

Cannabis market estimated to reach \$250 billion by 2029

Hexo has estimated the global cannabis market to reach \$250 billion over the next decade. The company’s management further expects a handful of cannabis players to account for 70% of the global market and is confident of Hexo being one such company.

Hexo has sold around 10.8 million grams of medical and recreational cannabis to Canadians with a cultivation space totalling 1.3 million square feet in Gatineau, Quebec.

Hexo has leased another 579,000 square feet of industrial real estate for manufacturing and distribution in Belleville. Although cannabis companies are aggressively increasing capital expenditure, is there enough demand to sustain supply?

Hexo stock is currently valued at \$604 million, or 5.2 times forward sales. The lower than estimated demand has not only hurt Hexo’s top line, but has also resulted in lower profits.

Similar to most other cannabis companies, Hexo also reports and adjusted loss, though analysts expect the firm to improve earnings by an annual rate of 29.4% over the next five years.

Hexo stock went public in September 2015 at \$1.05. The stock is currently trading at a two-year low at writing and has burned significant investor wealth in the last six months.

Will it bounce back as we head closer to the end of CY 2019?

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Author

araghunath

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