



## Will Cannabis 2.0 Revive the Stock Price of HEXO (TSX:HEXO) in 2020?

### Description

A disappointing performance by the cannabis industry in 2019 has left a bitter taste in the mouths of investors who flocked to Canadian [marijuana stocks](#) on high hopes for the launch of the legal pot market in Canada.

Supply and distribution challenges hindered the industry at the outset, followed by a lack of physical retail locations in key markets, such as Ontario and Quebec. Accusations of self-dealing, illegal production in unlicensed sites, and wildly optimistic revenue projections didn't help either, and investors eventually began to give up on the marijuana producers.

Contrarian investors are now sifting through the carnage and wondering if there might be opportunity in the beaten-up marijuana stocks.

Cannabis 2.0 officially launches in Ontario on January 6, with edibles, drinks, and vapes hitting the market in the coming weeks. Marijuana producers are hoping the second round of the legalization process will result in better rewards. Ontario has pledged to allow more stores to open this year and that could help drive sales.

Let's take a look at **HEXO** ([TSX:HEXO](#))(NYSE:HEXO) to see if it deserves to be on your [contrarian](#) buy list today.

### Tough times

HEXO traded at \$11 per share near the end of April last year. At the time of writing, investors can pick up the stock for less than \$2.

The fall from grace has many early HEXO fans scratching their heads, as the company had apparently done all the right things to position itself to be a major player in the cannabis market.

HEXO is the leading supplier to Quebec, where it is based, and even has an agreement to run the distribution of Quebec's online cannabis sales. On the downside, the province just raised the minimum

age for cannabis purchases to 21.

HEXO partnered with **Molson Coors Canada** to develop and market cannabis-infused drinks through a new company, Truss. It also secured a strategic interest in a two-million-square-foot facility in Ontario that is serving as a production and distribution hub for a wide range of products.

The purchase of Newstrike Brands in 2019 gave HEXO added reach across the country, expanding production capacity and increasing the portfolio of licences to eight provinces.

For a while, it appeared HEXO was firing on all cylinders, and the company's management team had high hopes for fiscal 2020, repeatedly providing revenue guidance of up to \$400 million for the year.

Unfortunately, orders haven't materialized as anticipated and HEXO had to scale back its targets in recent months and tighten its belt. The company cut 200 jobs last fall and closed facilities. Insiders had to provide \$70 million in loans, and the company just raised another US\$25 million through a share sale at a very low price.

Investors and lenders are avoiding the stock, and HEXO is at risk of running into a cash flow problem. That's why the shares are trading at a new 12-month low.

## Should you buy HEXO today?

Cannabis 2.0 could prove to be a winner for HEXO, but some of the new segments face headwinds.

The most promising opportunity likely lies in beverages. Cannabis-infused drinks have the potential to be a big hit, and if they really take off, HEXO should capture a good chunk of the Canadian market through its Truss partnership.

Edibles will be a very competitive space and there is no guarantee they will be as popular as anticipated. In addition, there is a risk that kids will get a hold of some of the items their parents bring home and those stories could put added pressure on the sale of the products.

Finally, the industry had high hopes for vaping products, but the wave of illnesses in the United States connected to vaping is putting the segment at risk. Government intervention should be expected at all levels, and it wouldn't be a surprise to see the products banned at some point until better information emerges on the health risks.

As such, contrarian investors might want to take a small position on the hopes of a Cannabis 2.0 bounce or a takeover bid, but I would probably search for other opportunities in the market today.

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## Date

2025/08/25

## Date Created

2020/01/06

## Author

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