



Can Hexo (TSX:HEXO) Stock Double Your Wealth in 2020?

Description

Shares of Canada-based marijuana company **Hexo** ([TSX:HEXO](#))(NYSE:HEXO) are currently trading at \$1.98. The stock has lost over 80% since April 2019 and has been one of the worst-performing stocks in the cannabis sector since the start of 2019.

But we know that the optimism surrounding Cannabis 2.0 coupled with the [rollout of retail stores](#) in Ontario will hold pot companies in good stead. Further, the decimation witnessed last year has resulted in lower valuations. Hexo is trading at a market cap of \$540 million, or 6.6 times forward sales, which might be considered attractive.

What are Hexo's competitive advantages?

Hexo is one of the top pot companies in Canada. It wants to become a market leader in the adult-use cannabis space with brands such as Hexo, UP, Original Stash, and "powered by Hexo." The company claims to have the lowest-cost production centres in Canada with a broad distribution network across 10 provinces. Hexo has invested heavily in research to enhance product offerings and customer experiences and has partnerships with global CPG companies.

Hexo is the first to launch a cannabis oil sublingual spray. It is the first licensed producer (LP) in Canada to join the Food & Consumer Products of Canada, which is the country's largest association representing this industry. Hexo is also the first LP to obtain Kosher certification and partner with a firm in the plant tissue culture space.

Strategic priorities

Hexo has focused on new product offerings as well as leveraging data analytics for decision making to drive top-line growth. As most cannabis companies, including Hexo, are struggling with low profit margins, it is now looking to streamline the supply chain and automate business processes to improve the bottom line.

To achieve its spending targets, Hexo has realigned operating expenses with near-term revenue expectations. Another strategy has been the company's focus on opening facilities in provinces that have a cost advantage.

Hexo launched a low-cost product known as Original Stash and is priced to compete with Canada's illegal market, which still accounts for close to 40% of the total market.

Huge market opportunity

Hexo is expected to launch in the United States in 2020. According to Hexo's presentation, the North American market for cannabis-infused beverages will reach \$1.56 billion this year. The global cannabis-infused beverage market is valued at \$5.04 billion.

The company has access to 98% of Canada's population due to its vast distribution network. It has a 33% market share in Quebec, which is the second-largest province in the country. Hexo's partnership with **Molson Coors** will help it gain significant traction in the cannabis-infused beverage market.

Molson Coors is a market leader in beverage distribution in Canada, U.S., Mexico, and the United Kingdom. This is a standalone joint venture where costs and profits will be shared on a pro-rata basis.

We can see that Hexo, like so many other players, is banking on future growth and investing heavily in capital expenditures. But the slow rollout of retail stores, competition from the illegal market, and lower-than-expected vaping sales will continue to impact pot stocks in the next few quarters.

The upcoming earnings season will be critical in case marijuana companies are able to reduce inventory levels and drive profit margins higher. Analysts remain cautious for a reason. But is it time to consider pot stocks once again, since the massive decline in valuations over the last year?

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