



Is Hexo (TSX:HEXO) Stock a Buy at its Current Price?

Description

We know that cannabis companies have lost considerable value in the last 15 months. Shares of **Hexo** ([TSX:HEXO](#))(NYSE:HEXO) are currently trading at \$1.97 and have lost over 80% since April 2019.

While a few pot stocks have made a comeback in 2020, Hexo has fallen 8.5% year to date. So, why has Hexo been one of the worst-performing pot stocks? Well, similar to peer marijuana companies, Hexo has been impacted by lower-than-expected demand for recreational cannabis products.

Product demand has been subdued due to the slow rollout of retail stores coupled with the cannibalization from illegal sales. Marijuana companies lost market value due to regulatory issues and the vaping scandal as well.

Hexo stock lost 23% in market value on October 10 last year after the company announced [preliminary fiscal fourth quarter](#) of 2019 results (year ended in July). Hexo's sales forecast between \$14.5 million and \$16.5 million for Q4 was significantly lower than consensus estimates of \$25.28 million.

What next for Hexo investors?

In order to take on [competition from the illegal market](#), Hexo launched a low-cost product from its Original Stash brand. It remains to be seen if this move will boost top-line growth significantly for the firm.

The legalization of cannabis-infused edible products is also expected to positively impact sales. The North American market for these products is estimated at \$1.56 billion, while the global cannabis-infused beverage market is expected to reach \$5.04 billion.

The company's press release stated, "We continue to prepare to take advantage of opportunities in the cannabis derivatives market and are expecting to launch new products in Canada during the first half of 2020. Products that we intend to introduce include, but are not limited to vapes, edibles such as confectionary and baked goods, cosmetics, and non-alcoholic beverages through our venture with **Molson Coors Canada**."

Hexo continues to increase distribution and market penetration across Canada. It has supply agreements with government-run and private retailers in all Canadian provinces and can access 98% of the country's populace.

Hexo continues to raise capital to support growth. On January 2, 2020, Hexo closed a registered direct offering with institutional investors. Hexo offered 1.49 million shares at an offer price of US\$1.67 per share for proceeds of \$25 million. It then raised US\$20 million on January 22, as it sold 1.19 million shares at an offer price of US\$1.67 per share.

Hexo trading at an attractive valuation

Due to its steep decline, Hexo stock is trading at an attractive valuation. It is valued at \$506 million, or 6.2 times 2020 sales. It has price-to-book ratio of 0.69.

Analysts expect sales to rise by 70.6% to \$81.1 million in 2020 and by 108.4% to \$169 million in 2021. We can see that the valuation multiples are more than reasonable considering the company's growth metrics.

Hexo stock will be volatile, and the upcoming results of cannabis giants, including **Aurora Cannabis** and **Canopy Growth**, will be critical for the pot sector as a whole. Analysts tracking Hexo have a 12-month price target of \$2.6, indicating upside potential of 32%.

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