



## If You'd Invested \$100,000 in Hexo (TSX:HEXO) Stock in April 2019, You'd Be Poorer Now

### Description

**Hexo** ([TSX:HEXO](#))(NYSE:HEXO) is one of those companies that had to bear the strongest brunt of the cannabis bubble burst. Since its IPO in March 2017, Hexo stock rallied as investors were bullish on cannabis stocks. This bullish streak lasted until April 2019.

From then on, Hexo stock has been continuously plummeting. The stock price, which was well on its course to enter double digits, has touched the bottom of the barrel. As of last week, the stock was trading at around \$1.80.

All those investors who were high on [cannabis](#) market growth and invested a significant sum of money are in trouble now. If you invested in Hexo in April 2019, then an investment of \$100,000 in its shares has crashed to \$20,042 since April. In other words, Hexo stock investors had to take the hit of a negative return of a whopping 81.58%.

The forward price-to-earnings ratio of the company is also north of 100 times. It shows that the stock is in big trouble, and even a contrarian investment approach may not sound right here.

### What went wrong?

Hexo is a classic example of a company that overpromised and then underdelivered. That is the case of every other cannabis company in Canada. The sales of illegal marijuana have not dropped, as forecasted by experts. This thriving black market of cannabis is one reason why Hexo couldn't ramp up its profits.

However, rising operational costs acted as a double whammy. Last year, the company hastily increased its workforce from 220 to 1,260 in anticipation of improved sales. The bulk hiring, along with other overheads, racked its operating expenses from \$24.4 million to \$111.5 million. This significantly affected the EBITDA margin of HEXO, which eventually spilled over its stock price as well.

## How does the future look for Hexo?

Last month, HEXO announced a discounted [equity](#) offering to raise US\$25 million. The company has given a vague explanation of raising that money. As per its official statement, the funds would be used to promote “innovation strategies.” I am not sure what these innovation strategies entail.

This discounted equity offering has 15 million new shares that were priced 14% below the closing rate of December 24, 2019. Such a significant discount to the market price that is already an all-time low indicates that it won't be smooth sailing for Hexo this year.

## Conclusion

Marijuana stocks have had a rough time the past year. Some of the companies might recover. Although Hexo could possibly recover this year, the headwinds detailed above will make it a tough uphill battle to consistent profits.

Cannabis stocks might get back on their feet. But for now, the abysmal performance of the cannabis market has shaken the investors. People with Hexo stock in their portfolios have lost 81.58% of its value since April, and the bad news is, there's no recovery in sight.

### CATEGORY

1. Cannabis Stocks
2. Investing

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