Why the Hexo (TSX:HEXO) Stock Price Fell 19.8% in January

Description

Cannabis stocks like **Hexo** (TSX:HEXO)(NYSE:HEXO) had their heads handed to them in January once again, as the downward spiral continues. When a bubble bursts, it falls hard, and Hexo's stock price is a prime example of this. Down 19.8% in January, 75.6% in the last year and 85.1% from its highs, Hexo stock still carries too much risk and uncertainty for investors, as the momentum is clearly negative.

So, why did Hexo's stock price fall again in January, and what, if anything, should investors do at this point?

Troubles in the cannabis industry send Hexo's stock price cratering

The cannabis industry continues to be fraught with difficulties, including pricing pressure, a slow roll-out of retail stores, and a general uncertainty regarding regulation. These problems have impacted all of the cannabis stocks, and Hexo was just another one caught up in this mess.

After a period of high-flying stock returns, the day of reckoning has come. Highly dilutive acquisitions, share issues, and a general lack of attention to shareholder and financial returns have resulted in many of the problems at Hexo today. And the dilution continues, as Hexo attempts to recover from recent financial disappointments and difficulties. In January, the company raised another $20 million at US$1.67 per share.

Newstrike acquisition troubles tank Hexo's stock price

Hexo's 2019 acquisition of Newstrike, which seemed reasonable at the time in terms of strategic direction at least, has now come to light as a big blunder on the part of Hexo management.

There were plenty of disappointments, but the biggest one was the revelation that Newstrike was growing product illegally at its Beamsville facility in Niagara. Hexo immediately stopped production in that illegal area, and that greenhouse is no longer being used. But the stain on Hexo remains.

Hexo's stock price heads to zero on bankruptcy concerns

Unpaid bills related to Hexo's Newstrike acquisition has prompted MediPharm to sue Hexo for $9.8 million, the company has reported greater-than-expected losses over the last few quarters and has burned through almost $80 million in the last quarter alone. With a dwindling cash balance that now stands at $54.6 million, we can see the precarious situation that Hexo is in.

On the plus side, Hexo still has its joint venture with **Molson**. This joint venture is Hexo's unique opportunity to offer non-alcoholic, cannabis-infused beverages. It is a promising growth area in the cannabis edibles market.

Foolish final thoughts

With a product offering including pre-rolls, flower, oil, and premium products, the company is still working hard toward its goal of becoming the premier-branded cannabis company in the edibles space.

That problem is that in the cannabis sector, we are clearly at the beginning stages, and as such, we can expect that many of the cannabis producers today will not be around in the coming years. There is great uncertainty and risk associated with this sector. Investors who wish to gain exposure to the potential upside may want to consider owning a basket of cannabis stocks to diversify company-specific risks.

In closing, I would like to remind Foolish investors of our belief in holding great businesses for the long term. While this belief remains intact, we are also aware that sometimes, short-term stock price movements create opportunities to create wealth. By blending this long-term focus with a keen eye for short-term stock mispricings, we can use both strategies in harmony, and our quest for financial freedom can be fulfilled.

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