



Could Hexo (TSX:HEXO) Stock Keep Rallying After its Earnings?

Description

The exhilaration for **Hexo's** ([TSX:HEXO](#))(NYSE:HEXO) earnings reached a new high with a massive rally in its stock recently. Hexo stock broke through the roof on June 8 and gained 44% for the day. A \$307 million Canadian cannabis company will report its third-quarter earnings on June 11.

Hexo earnings: Will it be a positive surprise?

Although Hexo stock reached a four-month high after its recent surge, it is still trading almost 85% lower to its 52-week high of \$9 last year.

The recent rally in Hexo stock indicates a huge optimism for its financial performance. Analysts expect its revenues to increase by 53% in the third quarter from a year earlier but is estimated to report a [loss](#). Importantly, the stock could turn significantly lower if it reports weaker-than-expected numbers later this week.

Hexo's production numbers and cash burn during the quarter will also be important to watch, which will drive its stock in the short term.

Apart from its financial woes, many structural issues continue to haunt the cannabis industry. Black markets have been eating a substantial market share in an already oversupplied market.

Also, Canadian pot companies produce way higher marijuana than what is consumed. A faster rollout of retail stores could offset these issues to some extent, but that seemed to have pushed back further due to the pandemic.

A top TSX cannabis stock

If you want to bet on the cannabis sector, I think **Aphria** (TSX:APHA)(NYSE:APHA) is a more appropriate choice. It is among a very few profit-making cannabis companies and has a sound balance sheet. Aphria stock has more than doubled in the last two months.

In the last nine months of fiscal 2020 that ended in February, Aphria's revenue almost tripled compared to the same period last year. The top-line growth is notable, particularly when peers are struggling with slowing revenue growth. Speaking of profitability and cash flows, Aphria is well ahead against peers.

With the growing footprint in Europe and strong growth prospects in the cannabis derivative markets, it will likely accelerate its earnings growth in the next few quarters.

Aurora stock continues to rally

Another hot pot stock that continues to steal the focus is **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB). The stock has more than doubled since its reverse stock split last month. Aurora surprised investors with better-than-expected quarterly earnings last month and management's upbeat commentary. Aurora [estimates](#) it will become EBITDA positive by the next quarter.

Aphria seems a reasonable bet for one another reason — valuation. It is currently trading three times its forward price-to-sales multiple. At the same time, Aurora stock is trading at seven times, while Hexo is at four times its price-to-sales ratio.

The recent recovery in cannabis stocks is indeed noteworthy. But it remains a speculative industry, and stocks could continue to exhibit excessive volatility. All in all, bigger cannabis names stand relatively better in this crowded market. Profitability still is a distant dream for many, and thus, we might see companies with weaker balance sheets vanish in the next few years.

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2. Investing

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vinitkularni20

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