



Is HEXO Stock (TSX:HEXO) on the Verge of a Historic Boom?

Description

Currently trading for just \$1, **Hexo** ([TSX:HEXO](#))(NYSE:HEXO) has had a rough year. Back in April, 2019, Hexo stock was worth nearly eight times as much. It's a reflection of the struggles of the broader cannabis sector since the excitement of legalization wore off.

However, the price is now so cheap that investors must consider if the company could be on the verge of a remarkable rebound. Here's a closer look.

Cannabis sector outlook

Legal cannabis is slowly but surely gaining strength across the country. Canadian spent \$5.16 million on pot products every single day in February, according to data published by StatsCan. By the end of the year, sales could hit \$1.9 billion.

Sales have been spurred on by a number of factors. Firstly, cannabis retailers were deemed "essential businesses" in a number of provinces during the lockdown. With people confined to their homes, many spent more on alcohol and marijuana. Secondly, Cannabis 2.0 is now in full swing with edibles and beverages on shelves across the country.

The price of a legal ounce of weed is still higher than the black market, but the gap is narrowing rapidly. There's a lingering issue of corporate debt and oversupply hanging over the industry, but things are starting to look up.

HEXO stock valuation

Currently worth \$1.35, Hexo stock is a fraction of its all-time high. However, underlying financials seem to be improving. Gross revenue jumped 30% to \$30.9 million in the most recent quarter. Annualized, the company is on track to generate \$120 million in sales. That means HEXO stock is trading at 4.6 times forward revenue per share.

Plenty of restructuring and asset restructurings over the past few months have made the company a lot more efficient. It's over the hurdle of financial struggles and could be able to sustain lower costs of

production going forward.

However, I believe HEXO stock's value could ultimately be unlocked via acquisition. A larger rival with more cash could buy the company to further consolidate the market. The industry clearly seems to be heading for consolidation. That means investors who bought HEXO stock at its lowest months ago or are willing to step in today could be in for a premium buyout.

[HEXO's diversified portfolio](#) of THC-infused products and the upcoming release of THC-infused drinks could be an attractive addition for larger rivals.

Foolish takeaway

Cannabis stocks have been on a wild ride. After exploding to ludicrous levels in 2018, stocks have been plummeting across the board for much of the past year. However, with sales picking up and prices stabilizing, the industry could finally be on the road to recovery.

Meanwhile, HEXO stock and others like it have been beaten down. These established players could be acquisitions targets as the market consolidates. Investors should consider the underlying value HEXO has created over the years and isn't being reflected in the HEXO stock price.

Another leg upward could be on the horizon for this stock.

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