Hexo (TSX:HEXO) Stock: Will This Pot Stock Surge Higher Post Earnings?

Description

Shares of cannabis giant **Hexo** (TSX:HEXO)(NYSE:HEXO) have surged higher by 26% in the last week. Hexo stock gained over 6% after it announced its Q3 results on June 12 to close trading at $1.36.

Hexo reported net revenue of $22.1 million, a sequential rise of 30% and above analyst estimates of $20.3 million. Its EBITDA loss of $4.3 million was lower than its Q2 loss of $8.5 million. However, Hexo reported a net loss of $0.07 per share, or $19.5 million in Q3, compared to a net loss of $0.04 per share, or $7.8 million in Q2. The marijuana heavyweight also missed analyst average estimate of a loss of $0.05 per share.

Hexo attributed the better-than-expected top-line growth to higher demand for its Original Stash product. Original Stash is Hexo's low-priced value brand that was launched last year to take on sales from Canada's thriving black market. The company's recently launched new hash and oil extract products also contributed to strong Q3 sales.

Hexo now aims to be EBITDA positive in the first half of fiscal 2021. It is also looking to leverage its partnership with **Molson Coors** and expand into the hemp-derived CBD beverage market south of the border.

What next for Hexo investors?

Despite the recent upward spiral, Hexo's stock price is trading 87% below record highs. The companies in the Canadian marijuana space continue to be impacted by structural issues. The slow rollout of retail stores in major provinces has resulted in lower-than-expected demand. This has pushed inventory levels higher, which means write-downs cannot be ruled out.

The competition from the illegal market continues to weigh on demand as does the near-term headwind of the COVID-19. Hexo is one of many pot companies that is still unprofitable and continues to burn cash. However, it might seem that the worst is over for pot stocks.

Hexo is one of Canada's cannabis leaders. During the recent Q3 earnings call, company co-founder and CEO Sebastien St-Louis claimed that Hexo has a 30% market share in Quebec and is well poised to expand nationally and increase its footprint. Hexo management aims to the among the top two players in every market it operates.

Sebastien St-Louis is also optimistic about reaching a positive EBITDA if the retail store openings accelerates in the second half of CY 2020. The CEO stated, "Our plans to achieve adjusted EBITDA positive in the first half of fiscal 2021 or the end of the calendar year will depend on the growth of retail stores in our two largest markets, Ontario and Quebec. It's difficult to determine the timing of new licenses for new retail stores in Ontario and the build-out of additional stores in Quebec, but we're very encouraged by the huge progress that both our provincial partners have made."

The Foolish takeaway

If Hexo is able to achieve profitability in the next few quarters, it will be a turning point for the company. Analysts tracking Hexo expects the company to post sales of $79.5 million in fiscal 2020. This indicates Hexo stock is trading at a price-to-sales multiple of seven, which is attractive if Hexo can expand profit margins.

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