



## \$500 in Hexo (TSX:HEXO) Stock at the Start of 2020 Is Worth This Much Now!

### Description

**Hexo** ([TSX:HEXO](#))(NYSE:HEXO) stock dropped 11% yesterday. In fact, the stock has been steadily declining for much of this year. If you'd invested \$500 in Hexo stock at the start of 2020, it would be worth just under \$250 today! Half of the company's market value has evaporated in just six months.

However, investors should consider what the stock could hold for the future. In other words, what would \$500 invested in Hexo stock today be worth by 2021? Here's a closer look.

### Future potential

The size and promise of the legal cannabis sector hasn't changed much over the past few years. This is still an exciting new sector of the economy that could be worth hundreds of billions of dollars by the end of the decade. One estimate suggests the medical and recreational cannabis sector would generate US\$73.6 billion (CA\$100 billion) by 2027.

That means there's plenty of room for expansion. Hexo stock is already a leader in the sector. However, now its market value is far more realistic and attractive. Long-term investors who appreciate the growth potential should dig deeper into Hexo's fundamentals.

### Hexo stock's valuation

The pendulum of investor sentiment seems to have swung from exuberance to pessimism. In early 2019, Hexo stock was worth \$10.5. Now, it's a fraction of that price. [Structural issues in the marijuana sector](#) and a looming debt problem has compressed the valuation of all cannabis stocks.

That means investors are overlooking Hexo stock's underlying strengths. The company's financials seem to be improving. In its most recent quarter, the company declared top-line figures that were higher than estimates. It's on track to generate \$80-\$100 million in revenue this year.

Meanwhile, Hexo's market value is currently \$433 million. That implies a price-to-sales ratio of four. Assuming Hexo can achieve a 12.5% profit margin in the future, the forward price-to-earnings for Hexo stock could be just 35. That's not bad for a company that's expanding sales at a 30% sequential rate.

When you consider the size of the market, the company's established partnerships, and its track record of tangible growth, Hexo stock seems fairly valued. However, investors must be aware of the risks involved in any cannabis stock. The supply, over-production, and debt issues could take a few years to resolve. Value will be unlocked gradually.

## Bottom line

The legal cannabis sector has had a rough few years. Structural issues and a massive debt burden have deflated investors' excitement for this industry. Hexo stock has been a prime victim of this shift in sentiment.

If you'd invested \$500 in the stock at the start of this year, it would be worth under \$250 today. Investors have lost hundreds of millions of dollars over the past six months. The destruction in wealth has been even deeper over the past year. Hexo stock is now worth just 10% of its early 2019 price.

However, considering the steady expansion of HEXO's top line and its current valuation, the stock seems attractively priced. Investors seeking growth at a reasonable price should certainly add Hexo stock to their watch list.

### CATEGORY

1. Cannabis Stocks
2. Investing

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1. NASDAQ:HEXO (HEXO Corp.)
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### Date

2025/08/25

**Date Created**

2020/06/18

**Author**

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