



## Why Hexo (TSX:HEXO) Stock Fell 8.4% Last Month

### Description

Shares of cannabis company **Hexo** ([TSX:HEXO](#))(NYSE:HEXO) fell over 8% in September 2020 to close trading at \$0.87. While there was no company-specific news that dragged Hexo stock lower, the company was impacted by overall market weakness and the [less-than-impressive results](#) of **Aurora Cannabis**.

However, Hexo has been one of the worst-performing pot stocks in 2020 and has lost 60% in market value this year. Hexo stock is also trading 92% below its record high of \$7.75 that it touched in May 2019.

Will Hexo manage to recover its massive losses and stage a comeback over the next few months, or will it continue to trade lower?

## Hexo has managed to double its sales in the last three quarters

Hexo is one of the largest weed producers in the world. In the first three quarters of fiscal 2020, the company almost doubled gross sales to \$74 million, up from \$38.7 million in the prior-year period. It continues to lead the market in Quebec with a market share of 33%.

However, similar to pot peers, Hexo is also grappling with structural issues. In 2018, Hexo signed a multi-year deal with Quebec to supply an aggregate of 200,000 kg of marijuana products in the province. It also acquired Newstrike Brands to bolster annual production capacity to 150,000 kg. Comparatively, it just sold 25,400 kg of products in the last 12 months.

Hexo had to sell the Niagara facility it acquired via Newstrike for \$10.2 million. The oversupply issues coupled with overvalued acquisitions contributed to a \$42 million write-down in unsold inventory as well as \$112 million in goodwill impairment charges in 2020.

## What's next for Hexo investors?

Hexo's sales have been impacted by increasing competition, which includes a thriving black market. Hexo, in fact, launched the Original Stash brand last year to take on black market sales, which accounted for 40% of total recreational sales in Canada.

Original Stash is a low-cost product that contains high levels of THC, the psychoactive compound in recreational marijuana. Hexo is [focused on three production aspects](#) that include high-potent products, value or affordable brands, and mass production of low-grade cannabis to compete with sales in the black market.

Another reason to remain optimistic about Hexo's long-term prospects is its joint venture with **Molson Coors Canada**. Hexo has entered the cannabis beverages segment, and in August it announced the two companies will launch five more beverage brands in the upcoming months.

In the last reported quarter, Hexo's net sales grew 70% year over year to \$22.1 million, driven by strong demand for its value brand Original Stash. However, the company's gross profit stood at a mere \$2.4 million and Hexo reported an operating loss of \$21.1 million, significantly higher than its loss of \$2.2 million in the prior-year period.

## The Foolish takeaway

Hexo is trading below \$1 a share on the NYSE since March 2020 and received a delisting notice in April. It has until December to get its stock price higher than \$1, or it will have to undergo a reverse stock split to continue trading on the exchange.

Further, Hexo will have to improve profit margins over the next few quarters in order to reduce cash burn. Analysts tracking Hexo have a 12-month price target of \$1.5, which is 75% above its current trading price. However, as seen above, investing in Hexo carries significant risks right now.

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