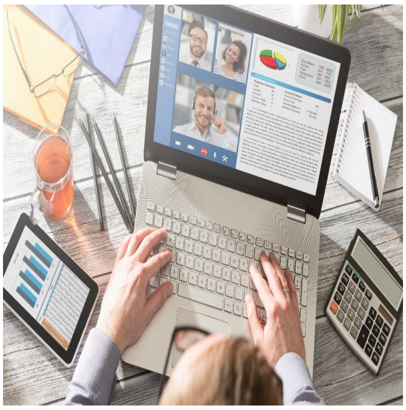

HEXO (TSX:HEXO) Weed Stock: Still Alive But Just Barely

Description

The marijuana producer **HEXO Corp.** (TSX:HEXO)(NYSE:HEXO) recently released a set of earnings results for its fiscal fourth quarter of 2020. The stock has taken a massive beating along with the rest of the stock market and the weed industry. Its latest earnings report has created confusion among investors regarding whether it is worth investing in for investors right now.

A mixed quarterly earnings report

The company's fiscal year ended on July 31, 2020. During Q4 2020, HEXO reported record-breaking revenues. The company's gross revenue increased by 17% compared to the previous quarter and a 76% year over year increase at $35.1 million.

The Cannabis Legalization 2.0 allowed it to launch new products, including cannabis-infused drinks and vapes. The new products helped the company see significant growth in its earnings. HEXO's net revenue increased by 23% in the quarter compared to the previous quarter at $27.1 million. Its wholesale sales and exports also provided a boost to its earnings.

Unfortunately, the company also reported a massive operating loss of $106.2 million in Q4 2020. The one-time non-cash expenses due to several challenging circumstances effectively diminished its excellent results.

Between the $46.6 million to adjust for redundant assets and the $43 million inventory write-down, the net loss was a devastating $169.5 million for HEXO.

A consolidation plan

HEXO is trading for $1.05 per share at writing. The stock declined 8.70% between November 6 and November 9. At this valuation, the stock is trading for 6.28 times price to sales and 0.92 times price to book. The company is down 62.63% year over year, and it is struggling to turn a profit despite a fantastic performance.

The company recently announced a plan to consolidate its shares to regain its compliance with the US$1 minimum valuation to retain its listing on the **New York Stock Exchange**. Avoiding a delisting of its shares from NYSE is crucial for the company and its shareholders. The proposal to consolidate shares involves shareholders receiving one post-consolidation share for each share they hold.

Foolish takeaway

If you are a marijuana investor interested in the HEXO stock, the current weakness in its valuation could make it an attractive buy. The company's performance is hitting all-time highs. Its discounted share price might make it an excellent option for its potential to turn a profit.

Investors interested in the stock for short-term fluctuations to take profits and exit their position in HEXO could use this time to invest in the stock for the profits. However, I doubt the long-term feasibility of the weed stock. If you have a longer investment horizon in mind, I would suggest practicing patience instead of investing in HEXO for its attractive valuation. A second market crash could make things worse.

Until the company can prove that it can overcome its financial challenges, it may not be an ideal investment to buy and hold.

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