



Cannabis Investors: Can Hexo (TSX:HEXO) Stock Make a Comeback in 2021?

Description

Another year has gone by that sees cannabis stocks underperforming the broader markets by a huge margin. Shares of **Hexo** ([TSX:HEXO](#))(NYSE:HEXO) are trading at \$1.37, which meant it has lost close to a quarter of its market value in 2020. Hexo stock is also trading 87% below its all-time high price.

However, since the start of November, Hexo shares have risen 70% to trade at the current price. Does this mean it can gain momentum in 2021 and continue its upward spiral?

Is Hexo stock a buy?

Hexo is a Canada-based marijuana company and recently released its fiscal fourth-quarter results (ending in July). The company reported net revenue of \$27.1 million, a growth of 76% year-over-year and 23% on a sequential basis.

This stellar performance was supported by its [adult-use beverages segment](#) that accounted for \$2 million in sales, up from just \$431,000 in the third quarter. Hexo's non-beverage sales also gained pace and rose by 16% to \$25.1 million.

Hexo [announced a joint venture](#) with **Molson Coors** back in 2018 in order to gain traction in Canada's cannabis-infused beverage market. The joint venture, Truss, launched five new brands in 2020, offering consumers multiple beverage options.

However, similar to most peer companies, Hexo is also grappling with negative profit margins. In Q4, Hexo's net loss stood at \$169.5 million, up \$18.8 million year-over-year. Hexo attributed the losses to goodwill impairments and inventory write-downs.

After accounting for non-cash items, investment gains, and other adjustments, Hexo's EBITDA loss stands at \$3.3 million. Alternatively, investors should also note that the company is struggling to sell its inventory which indicates a loss in market share or lower than estimated demand.

In Q4, Hexo produced 16,540 kilograms of dried cannabis but sold just 50% of its production. This

trend has been visible for close to five quarters where Hexo has consistently sold less cannabis compared to the amount it harvested. We can see why Hexo is struggling with lackluster demand and massive asset write-downs.

A major driver for Hexo stock

Marijuana stocks have gained pace in the last month after Joe Biden won the presidential race. During one of the pre-election debates, Vice President-elect Kamala Harris said the Democrats would decriminalize the use of marijuana at the federal level, which drove the pot market rally.

The legalization of cannabis south of the border will be one of the major drivers of Hexo's stock price. This legalization may take a few years to materialize which suggests Hexo should focus on gaining market share and reducing losses in the Canadian market.

Hexo stock has a market cap of \$660 million, which means its trading at a forward price to sales multiple of 4.96. Analysts also expect the company's earnings loss to narrow from \$1.77 per share in fiscal 2020 to \$0.03 in fiscal 2022.

Comparatively, its sales are forecast to grow by 65% to \$133.5 million in 2021 and by 30% to \$173 million in 2022. We can see that Hexo is reasonably valued, especially if it can improve the bottom line and remain consistently profitable.

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