



Why Hexo (TSX:HEXO) Stock Will Likely Double Again in 2021

Description

In the Canadian cannabis sector, one of my top picks for some time has been **Hexo** ([TSX:HEXO](#))(NYSE:HEXO). My conviction level on this cannabis player relative to its peers hasn't shifted of late.

I think Hexo is a stock that has had a rough go of it in 2020 but is turning things around in the right direction. I think this stock has the potential to double from current levels to around the \$20 level before the year is done. Here's why.

Domestic market performance likely to be the story with this stock

Unlike peers I've written about late that have significant U.S. exposure, Hexo is a Canada-focused cannabis firm. I think most of the upside is within regional markets in Canada. This is a company which is the market leader for cannabis sales in Quebec — something I don't expect to change. Hexo has a very lucrative contract with the Quebec government. Indeed, as we've seen with other industries, Quebec is very isolationist with respect to its supply chain. The Quebec government is also very supportive of its local businesses. With the Quebec market likely to grow to one of the largest in Canada, this is very bullish for Hexo investors.

There may be room for Hexo to grow in the U.S., though I don't see this as a likely scenario to play out. I think as long as this company stays right-sized and focuses on its core business, it will do fine.

Capital needs look to be covered

As fellow Fool contributor Brian Paradza wrote in a [recent piece](#), Hexo looks to be on track to have its capital needs covered from here on out. He wrote: "The company once flirted with the possibility of bankruptcy at one point. Lenders gave management a deadline by which to raise new equity. The stock price was in free fall, and there was no guarantee that the markets will continue to fund the firm. Fortunately, funding was secured just in time. Management doesn't see a need for new and dilutive

equity financing anymore. At least not in the near term. The executive team is positive on the firm's balance sheet and cash flow outlook."

I think Paradza is right on the money here. As long as Hexo is able to execute its domestic strategy and doesn't go crazy with acquisitions, this is a nice niche player that could outperform in the domestic Canadian cannabis market. Hexo looks to have a long-term capital funding plan in place. Concerns about the potential for bankruptcy appear to be in the rear-view mirror. Accordingly, I see a lot of upside for this stock if Hexo can improve its margins and show a path to profitability in 2021.

CATEGORY

1. Cannabis Stocks
2. Investing

POST TAG

1. canada
2. Cannabis
3. Cannabis Stocks
4. Editor's Choice
5. growth
6. market

TICKERS GLOBAL

1. NASDAQ:HEXO (HEXO Corp.)
2. TSX:HEXO (HEXO Corp.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Cannabis Stocks
2. Investing

Tags

1. canada
2. Cannabis
3. Cannabis Stocks
4. Editor's Choice
5. growth

6. market

Date

2025/09/14

Date Created

2021/01/18

Author

chrismacdonald

default watermark

default watermark