



Should You Buy HEXO (TSX:HEXO) Ahead of its 2nd-Quarter Earnings?

Description

The cannabis space has witnessed strong buying this year with the benchmark index **Horizons Marijuana Life Sciences Index ETF** trading 67.6% higher for this year. With Democrats taking control of both Senate and House, investors are hopeful of pro-cannabis bills becoming laws soon. Further, the expansion of addressable markets due to increased legalization has also contributed to the strong buying.

Amid the renewed investors' optimism, **Hexo** ([TSX:HEXO](#))(NYSE:HEXO) is up 101.9% this year. Last month, it had announced an agreement to acquire Zenabis Global for \$235 million in an all-stock deal, which boosted its stock price. Meanwhile, the company will post its [second-quarter earnings](#) of fiscal 2021 before the market opens on March 18. So, should you buy HEXO ahead of its earnings? Let's first look at analysts' expectations and the company's growth prospects.

Second-quarter expectations

HEXO had delivered an impressive first-quarter performance in December, with its top line growing by 103% on a year-over-year basis. Its adjusted EBITDA losses declined for the sixth consecutive quarter. At the end of the first quarter, its working capital stood at \$250.3 million, including \$149.8 million of cash. So, the company's financial position looks healthy.

Meanwhile, analysts are projecting the upward trend to continue in the second quarter as well. The company's second-quarter revenue could come at \$32.44 million, representing year-over-year growth of 90.8% and sequential growth of 10.1%. The relaunch of its UP brand products with higher THC content and strengthening its market share in the cannabis-infused beverage and vape segments could drive its top line in the second quarter.

Further, analysts are also hopeful that its adjusted EBITDA could improve for the seventh consecutive quarter. The company has taken several cost-cutting initiatives over the last few quarters, which, along with higher sales, could boost the company's adjusted EBITDA in the second quarter.

Outlook

With many countries warming up towards cannabis, the sector offers strong growth prospects. Meanwhile, Research and Markets project the global cannabis market to reach \$90.4 billion by 2026, representing a CAGR of 28%. Meanwhile, HEXO is taking several initiatives to capture this growing cannabis market.

HEXO plans to acquire Zenabis Global, which would position the company as one of the top three players in the Canadian recreational market. The acquisition also provides HEXO access to the European medical cannabis market. Also, the combined entity could realize around \$20 million of annual synergies within one year of completing the transactions.

Further, the company's partnership with Molson Coors Beverage provides an excellent opportunity to expand its footprint in the growing U.S. cannabis market. So, I believe HEXO's growth prospects look healthy.

Analysts' recommendations and bottom line

Meanwhile, analysts look less bullish on HEXO. Of the 15 analysts covering the company, 12 have issued a "hold" rating, while two analysts have given a "sell" rating, and the remaining one analyst has given a "buy" rating. Currently, analysts' consensus price target stands at \$7.63, representing a potential fall of around 19% from its current stock price.

Despite its recent surge, HEXO still trades at a cheaper valuation than its peers. The company's price-to-book multiple currently stands at 2.1, while **Canopy Growth** and **Aphria** trade at 4.1 and 4.2, respectively. So, given its healthy growth prospects and attractive valuation, [I am bullish on HEXO](#). I also expect HEXO to outperform analysts' expectations in its second quarter.

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Author

rnanjapla

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