Should You Buy Hexo (TSX:HEXO) Stock Right Now?

Description

Its been a year since the COVID-19 pandemic decimated the stock market as well as our personal lives. The dreaded virus brought the world to a standstill, resulting in a sell-off in Canadian pot stocks. Shares of **Hexo** (TSX:HEXO)(NYSE:HEXO) fell from $8.2 a share at the start of 2020 to a multi-year low of $2 last April.

However, the stock has managed to recover its losses to currently trade at $9.43. While Hexo stock has gained momentum recently, it's also trading 79% below its record high. Despite marijuana legalization in Canada, domestic producers are grappling with a slew of structural issues.

We'll try to understand if Hexo stock should be on your buy list right now.

Hexo stock has more than doubled in 2021

Shares of Hexo have returned 102% in 2021, easily beating the broader indexes. The possibility of marijuana legalization at the federal level in the U.S. as well as a recently announced acquisition has driven prices of Hexo shares higher.

In January 2021, Hexo also disclosed its joint venture with **Molson Coors**. Truss will be launching hemp-derived CBD (cannabidiol) beverages under the Veryvell brand name in Colorado.

The company reported its last quarterly results in December 2020. Its sales for the quarter ended in October stood at $29.4 million — a year-over-year growth of 8.7%.

While beverage sales were up 53.7% at $3.1 million, they accounted for just 10.4% of total revenue. Hexo is now a market leader in the Canadian beverage segment with a 54% share, successfully displacing **Canopy Growth** from the pole position.

In the fiscal first quarter of 2021, Hexo managed to break even in terms of its gross margins. Comparatively, in the fiscal Q4 of 2020, it reported a negative gross margin of 121%.

After a pandemic-hit year, analysts expect Hexo to increase sales by 73.1% year over year to $139.84 million in fiscal 2021. The company ended Q1 with a cash balance of $150 million easily offsetting its debt balance of $59 million.

Hexo's robust revenue projections in 2021 will also help it improve the bottom line. Bay Street analysts expect its loss per share to narrow from $7.08 in 2020 to $0.17 in 2021 and $0.09 in 2022.

Zenabis acquisition valued at $235 million

Last month, Hexo announced it will acquire **Zenabis Global** in an all-stock transaction for $235 million. So, Zenabis shareholders will receive 0.02 of a share of Hexo for each Zenabis share they own.

According to Hexo, this acquisition will make it one of the top three marijuana licensed producers in Canada in the recreational space. Hexo will also gain access to the growing medical marijuana vertical in international markets, as Zenabis is approved to export products in Europe.

The acquisition will add 2.7 million square feet of cultivation space for Hexo, which will double its production facilities. However, similar to most other pot producers, Zenabis remains unprofitable and reported a net loss of $40.5 million in the first nine months of 2020.

The Foolish takeaway

Hexo is valued at a market cap of $1.04 billion, indicating a forward price-to-sales multiple of 7.2, which is steep. However, the stock can end 2021 higher if Hexo can improve its bottom line, successfully integrate Zenabis, and keep crushing analyst estimates.

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