



Looking for Parabolic Growth? Hexo Stock Is a Winner

Description

Following Canadian legalization in 2018, the cannabis industry has been flourishing in the country. This sector did take a breather in recent quarters but has resumed its red-hot rise of late. Indeed, Canadian investors are once again riding the wave. Many are now looking for the best options to put their money to work.

Here's why I think **Hexo** ([TSX:HEXO](#))(NYSE:HEXO) could be a great pick for those looking to do so.

HEXO continues to outperform

The cannabis industry has remained a growing contributor to Canada's GDP. Indeed, this sector generated approximately \$8.65 billion for the country's economy in May 2020. That's an impressive number, considering the 11% year-over-year growth. The Canadian government thus has an incentive to support this sector now. Hexo, being one of the largest names in this sector, could therefore do very well for long-term investors.

However, despite legalization, this sector mainly suffered from structural and organizational issues, and the company had a rough 2020. But Hexo has also seemingly turned things around in the right direction.

In Q1, Hexo's revenue doubled year over year. To be precise, shares returned 102%, comfortably beating predictions of the broader index. In the Q4 earnings call held in Dec. 2020, this company reported year-over-year growth of 8.7% on its quarterly sales, standing at \$29.4 million.

In Q4 FY2020, Hexo reported a negative gross margin of 121%. By Q1 2020, the trend reversed, and HEXO managed to break even in gross margins.

The domestic market had a significant role to play

Right now, much of the excitement in cannabis stocks is over U.S. legalization. And rightfully so — it's

a massive catalyst. However, Hexo's domestic performance of late is worth noting for fundamental long-term investors.

Indeed, the vast majority of Hexo's sales have been in the domestic Canadian market. This company is the largest in the Quebec province in terms of sales, a trend that I think is not likely to change anytime soon. As we have seen with other industries, the Quebec government highly supports its local businesses and heavily invests in maintaining supply chains.

With the local market predicted to grow, I expect Hexo will continue to meet its capital targets, making it an intriguing investment option. While it does not have significant exposure to the U.S. market, if Hexo upholds a bullish trend in the domestic market, it could retain its impressive revenue growth going into the future.

Bottom line

Hexo's market cap, as of writing, is \$1.174 billion, with a steep price/sales ratio of 12.26. However, out of all the cannabis producers listed in Canada, my two [top picks](#) right now are **Curaleaf** and Hexo. Analysts predict that Hexo will post robust revenue projections, increasing sales by 73.1% year over year in 2021. I think these stocks have intriguing upside now, and for those inclined to invest in cannabis, these can be the perfect stocks to get a head-start.

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