



HEXO Corp (TSX:HEXO) Could Lead the Legal Weed Resurgence

Description

Cannabis companies made big waves in the stock market in 2018, boasting some of the strongest growth on the TSX. Anything that had something to do with marijuana and was trading on the TSX skyrocketed in value. Many equity securities even quadrupled in value — all in a matter of months.

The market then fizzled out, and cannabis companies came back down to more reasonable valuations. Fast forward to today, and the cannabis market is on the rise again.

I will discuss **HEXO** ([TSX:HEXO](#)) (NYSE:HEXO) today. The stock's recent earnings reports make it a hopeful prospect to consider, and HEXO looks like it is racing its way to the top.

Excellent earnings reports

The cannabis producer's recent earnings report offered investors decent [long-term upside potential](#). The company reported net revenue of almost \$33 million in its latest quarter, up by \$17 million from the same period last year. The significant revenue growth came as the quarter marked the seventh consecutive quarter where HEXO reported positive adjusted EBITDA.

The company also noted that its non-beverage recreational use revenues increased by 6%. Its revenues from adult-use cannabis products also marked a fifth consecutive quarter of improvement, allowing HEXO to maintain a leading position in Quebec's legal cannabis market. The company's revenues throughout Canada increased by a massive 49%, showing that HEXO's improving performance is not limited to just Quebec.

Expansion will be a critical factor

The earnings already paint a pretty picture for HEXO investors seeking [long-term growth](#). The company's high-margin products could be the major driver for its profitability in the coming months and years. Investors may have one reason to worry regarding HEXO: its global expansion potential.

Unlike its closest peers in Canada, HEXO does not have significant direct access to the U.S. market. Despite its impressive revenue growth, its financial position still leaves more to desire.

The company recently established a position in the U.S. market but has focused heavily on its presence in the domestic market. The company has recently appointed Charles Bowman as the general manager of HEXO's U.S. operations. HEXO is relying on him to improve the company's presence in the U.S.

Expanding into the U.S. will play a critical role for the weed industry, as the legalization movement picks up pace there. More than half of the 50 U.S. states have already legalized cannabis at some level. The prospects of federal-level legalization look increasingly hopeful. Having a substantial presence in the U.S. market could make a world of difference for HEXO.

Foolish takeaway

HEXO is trading for \$7.34 per share at writing, and it is still well below its 2018 valuations. The stock has all the potential to become a global leader in the legal cannabis industry. HEXO could be an excellent investment at its current valuation. Still, many investors might prefer to sit on the sidelines to see how the company progresses with its global expansion before they invest.

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Author

adamothonman

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