



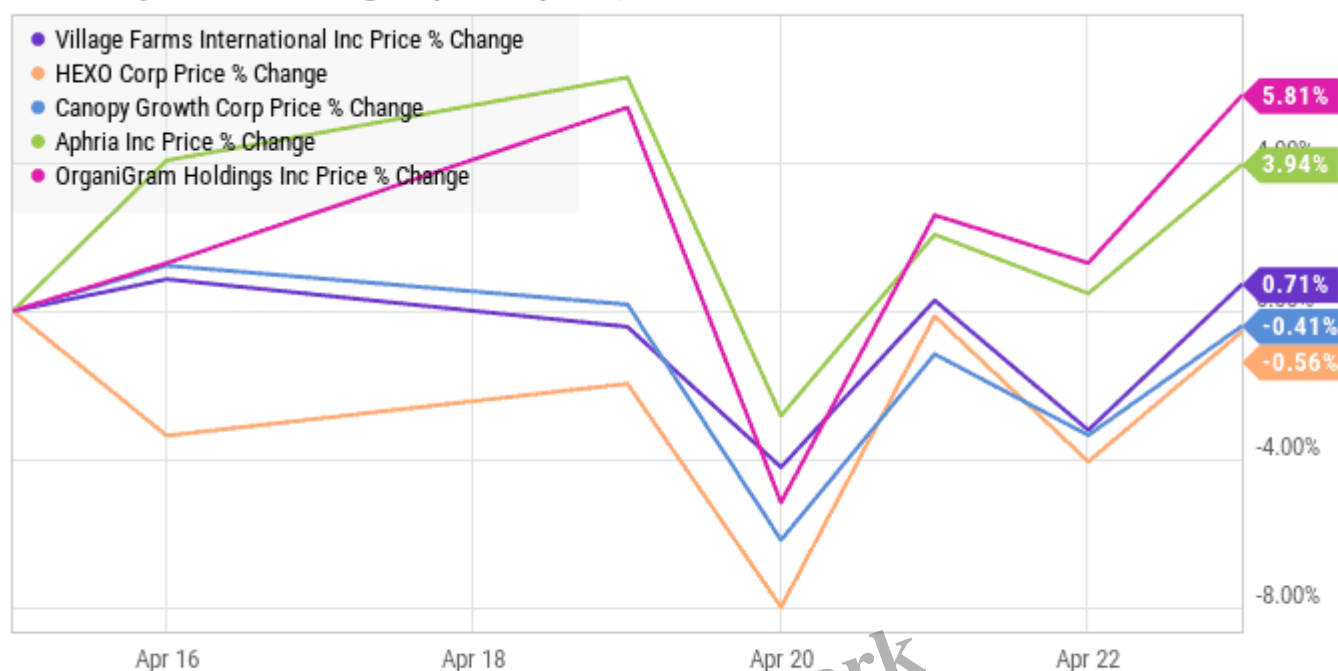
Is HEXO a Good Cannabis Stock to Buy Now?

Description

Canadian marijuana producer **HEXO** ([TSX:HEXO](#))(NYSE:HEXO) is expected to raise up to \$1.2 billion in new equity within the next 25 months. The company could significantly dilute its existing shareholders, but investors didn't seem too concerned judging from the company's stock price performance, since the news broke out on Thursday evening.

Perhaps it's too early for investors to price in any dilution discounts, as the company won't necessarily raise \$1.2 billion in one big transaction. Money will be raised "from time to time." That said, markets are forward looking. They price a stock based not on its past earnings, but on its expected future earnings and cash flows. So, the potential dilution should already be priced in by now. But I believe it may not be, given missing information.

HEXO 6-Day Stock Price Change - April 15-April 23, 2021



The Motley Fool

Apr 26 2021, 8:59AM EDT. Powered by YCHARTS

HEXO shares prove resilient. The market can't confidently put a dilution discount on the TSX marijuana stock yet.

The company registered its intention to issue stock, but we don't know much yet. We aren't sure about the actual timing of equity raises over the 25-month window. The new partners aren't disclosed either. Of course, some of the upcoming deals will focus on a U.S.-led expansion strategy, but the company could announce Canada-based ventures, too. Some of the cash could even go into acquisitions, and the company could raise much less than \$1.2 billion. It may allow the prospectus to expire as [it has previously done](#).

Should you buy HEXO stock before its \$1.2 billion equity raise?

There are many unknowns as far as the decision to buy HEXO shares is concerned at this point.

As [previously mentioned](#), "the decision whether to buy more HEXO stock as it dilutes shareholders should therefore be influenced by two things: one's faith in management and an assessment of U.S. regulatory changes and market potential for amplified revenue and cash flow growth."

I have no problems with the management component at the moment. The team was the first to take drastic action and quickly refocus operations when it became apparent that the marijuana market was not growing as big as initially expected. They turned around the company, and it reported its first positive adjusted EBITDA quarter by January 2021.

Most noteworthy, the company has made good progress with previously announced partnerships. This validates management's capability to execute its partnerships-led strategy.

Previous successes through strategic partnerships

The company's cannabis-infused beverages partnership (the Truss Beverage Company) with **Molson Coors Canada** has been accretive to growth. Since its launch four quarters ago, revenue from beverage sales has increased from just 2% of total company net revenue by April 2020 to over 10.3% of net sales by January this year.

Notably, sales grew in other segments during the period. Holding other segments' quarterly sales constant at April 2020 levels, Truss's quarterly sales could have constituted 15% of quarterly revenue by January this year. The joint venture claims market leadership in Canada. In just one year of beverage sales, HEXO has added 15% growth to its top line with just one partner.

The company has another joint venture deal that has constructed a cannabinoid extraction factory. The joint venture, Keystone Isolation Technologies (KIT), provides the company with a platform onto which it can enroll new product and brand development partners.

HEXO is thus proven technically capable of bringing new successful products to the market through partnerships. The Powered by HEXO platform is about to bring on board new international consumer packaged goods partners. The focus, as I see it, is on the U.S. CBD market where the company is actively establishing a long-term presence.

That said, the U.S. CBD market still has its marketing challenges with the FDA. However, this did not stop the Truss partnership from launching in Colorado. The company also aims to establish extraction centres in America modeled after its KIT facility in Canada. The technology could easily switch from hemp CBD to cannabis processing once it becomes federally legal to do so.

The company is placing its best foot forward into the U.S., even as its Canadian peers do the same.

Foolish bottom line

The company has successfully incubated partnership projects. Banking on previous successes, management's execution risk is lower. However, until we get more details, any investment actions based mostly on HEXO's latest filing are highly speculative.

CATEGORY

1. Cannabis Stocks
2. Investing

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

Date

2025/06/28

Date Created

2021/04/26

Author

brianparadza

default watermark

default watermark