Should You Buy HEXO (TSX:HEXO) at These Levels?

Description

Hexo (TSX:HEXO)(NYSE:HEXO) reported a disappointing third-quarter performance earlier this month. The company's top line came in at $22.7 million, falling short of analysts' expectations of $34.5 million. In addition, its net losses stood at $0.17 per share, which were wider-than-expected losses of $0.06 per share. The weak third-quarter performance has dragged the company's stock price down by over 10%. However, the company's growth prospects look healthy. So, is it the right time to start buying the stock? First, let's look at its third-quarter performance and its growth prospects in detail.

Third-quarter performance

Quarter over quarter, HEXO's revenue declined by 31.2%. The company's management has blamed the timing of its strain cultivation and certain production decisions in the hash segment for the decline. However, the management has claimed that it has rectified these issues and expects its sales to bounce back in the coming quarters. The company has maintained a leadership position in the cannabis-infused beverage industry.

Further, the company's SG&A expenses fell 8% on a sequential basis, which is encouraging. However, despite the lower SG&A expenses, the company's adjusted EBITDA fell from $0.2 million in the previous quarter to a loss of $10.8 million due to weaker sales. Meanwhile, the company has also strengthened its balance sheet by raising funds through various debt facilities and equity offerings. At the end of the quarter, the company had $194 million of cash while another $275 million was in escrow, waiting to complete the Redecan acquisition.

HEXO's healthy growth prospects

Truss Beverage, a joint venture between **Molson Coors Canada** and HEXO, has acquired a 46% market share in the beverage segment in the Canadian market. It launched six more products in April. Further, HEXO is introducing hash products with higher THC content to regain its market share.

Besides organic growth, the company also focuses on acquisitions to strengthen its market share and expand its footprint. Recently, it acquired Zenabis, which has expanded its brands in the domestic market and strengthened its indoor production capabilities. Also, it has provided a foothold in the European markets while delivering $20 million in saving within the next year due to synergies.

Meanwhile, the company is also working on closing Redecan and 48 North Cannabis acquisitions, which could diversify its product portfolio and deliver accretive synergies. With these acquisitions, the company could become the leader in the Canadian recreational space. Also, HEXO is looking at strengthening its footprint in the U.S. and has announced its intent to purchase a 50,000-square-foot facility in Colorado. So, the company is well equipped to capture the growing cannabis market due to increased legalization, growth in medical usage, and increased acceptance.

Analysts’ recommendations and bottom line

Following a weaker-than-expected third-quarter performance, ATB, Alliance, CIBC, Stifel-GMP, and Canaccord have all slashed their price targets. Meanwhile, analysts’ price targets range from $5.97 to $12.00, with its average price target standing at $8.85, representing an upside potential of 22%. Overall, analysts favor a “hold” rating, with eight of the 13 analysts issuing a “hold” rating.

Despite its near-term challenges, HEXO’s growth prospects look healthy. So, with the company trading close to 49% lower than its February highs, I believe investors should utilize this correction to accumulate the stock to earn superior returns over the next three years.

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