



HEXO (TSX:HEXO): An Attractive Cannabis Pick Right Now

Description

Hexo ([TSX:HEXO](#))(NYSE:HEXO) had a disappointing performance in the third quarter of fiscal 2020 based on its quarterly earnings report released earlier this month.

Analyst expectations from the quarter were that the company's top line would reach \$34.5 million and end the quarter with \$0.06 per share in losses. Unfortunately, the company's top line came below \$23 million, and its net losses were at \$0.17 per share — significantly higher than expectations.

It came as no surprise that the quarterly earnings report triggered a significant drop in its share prices. However, Hexo stock might not be a bad pick to consider adding to your portfolio if you are bullish on the cannabis sector.

I will discuss Hexo's third-quarter performance and its growth prospects to help you make a more well-informed decision regarding whether it is a [good stock pick to consider](#).

A disappointing quarter

The last quarter saw the company's revenue dip by more than 30%. The company's management has blamed the devastating revenue loss on certain production decisions for its hash segment and mistimed strain cultivation. However, Hexo's management has said that it has corrected the problems and expects its sales to rebound in the coming few quarters.

Hexo retains its leading position in the cannabis-infused beverage industry, despite its recent losses. The company's adjusted EBITDA fell to a loss of \$10.8 million due to weaker sales — a massive decline from its adjusted EBITDA of \$0.2 million in the previous quarter. Hexo's management has managed to raise funds through equity offerings and debt facilities to improve its balance sheet.

Promising outlook for growth

The company ended its third quarter for this fiscal year with \$194 million in cash and another \$275

million in escrow to complete its acquisition of Redecan. To make things better for the company, its joint venture with **Molson Coors Canada** has acquired almost half of the total beverage segment share in the Canadian market. Truss Beverage, the combined venture between Hexo and Molson Coors, also launched six additional products in April 2021.

Hexo is also introducing hash products to the market containing higher THC concentrations to regain momentum in the market. Hexo is also focusing on its acquisition-based growth to establish a stronger presence in the market. The company recently acquired Zenabis, allowing it to expand its domestic presence and improve its production capacity.

The acquisition has also helped Hexo establish a foothold in the European markets. Hexo's management is currently working on the Redecan acquisition, along with other lucrative deals for the company. Successful acquisitions will significantly improve Hexo's balance sheet, expand its reach, add more diversity to its product portfolio, and deliver accretive synergies.

The company also looks well positioned to cater to the U.S. market by buying a 50,000-sq.-ft. facility in Colorado.

Foolish takeaway

The third-quarter performance for Hexo was weaker than analysts anticipated. Several analysts have adjusted their price target average for the stock to \$8.85 per share. Trading for \$7.22 per share at writing, Hexo still has some upside to reach that price target.

Hexo stock still has its fair share of short-term challenges to contend with. However, the company's growth prospects are promising. Trading for a 44% discount from its February 2021 high, Hexo could be a good addition to your portfolio if you believe that it can fulfill its [upside potential](#) in the coming years.

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