HEXO Stock: Is the Cannabis Giant a Buy Right Now?

Description

Shares of Canadian cannabis giant **HEXO** (TSX:HEXO)(NASDAQ:HEXO) rose by over 10% in the first half of 2021. However, since then, the stock has wiped off these gains and is now down over 50% year to date. The cannabis stock is now down 95% from record highs, burning significant investor wealth in the process.

Generally, you look at a company's revenue and earnings growth to make an investment decision. But it's difficult for cannabis companies to keep delivering top-line growth and earnings improvement, as the industry is grappling with a wide array of structural issues. Further, the cannabis industry is at a nascent stage, which has attracted several players, thereby increasing competition resulting in a price war to capture market share.

So, marijuana producers, including HEXO, have been hit by widening losses, which have led to multiple equity capital raises in the past, resulting in an accelerated dilution of shareholder wealth in recent years.

Investors also need to consider a company's cash flow from operations to see if the entity is burning through cash with respect to day-to-day activities, which will then result in further shareholder dilution and a corresponding decline in stock price. For example, in August 2021, HEXO stock lost over 25% in a single trading session after the company announced its plan to raise over $175 million via an equity offering.

HEXO stock remains vulnerable

In the last 12 months, HEXO has burnt close to $20 million to fund its operational activities. In its fiscal third quarter of 2021 (ended in July), HEXO reported a cash balance of $194 million, which provides the company with enough leeway to improve its cash flows in the future. However, HEXO has been on an acquisition spree this year and disclosed three big-ticket acquisitions in the first five months of 2021. These acquisitions will be funded via a combination of company stock and cash, both of which will weigh on HEXO's already weak financials.

Investors who are bullish on HEXO stock will argue that the company's acquisition of Redecan, which is the largest privately held cannabis producer in Canada, will allow the former to gain significant traction in Canada's recreational marijuana market. But can HEXO afford to keep raising capital and fund its expansion plans?

Similar to other Canadian cannabis producers, HEXO is also eyeing expansion south of the border for when pot is legalized at the federal level. A few months back, HEXO acquired a cannabis facility in Colorado for $6 million. But it will spend around $50 million to upgrade the facility, which is a matter of grave concern.

What's next for HEXO stock?

HEXO is currently valued at a market cap of $603 million. The company has increased its revenue from just $4.9 million in fiscal 2018 to $80.78 million in fiscal 2020. But its operating losses have also widened from $17.9 million to $163 million in this period. If interest rates rise, it will negatively impact HEXO's balance sheet, as the company has already paid $11 million in interest and financing expenses in the last 12 months, accounting for almost 10% of total sales in this period.

HEXO might continue to raise debt to fund its acquisition plans, which suggest the marijuana company has to reduce cash burn at a rapid clip to gain investor confidence. Despite the company's less-than-impressive financials, Bay Street expects HEXO stock to more than double to $5.51 per share in the next 12 months.

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. Smart News
8. Yahoo CA

PP NOTIFY USER

1. araghunath
2. kduncombe

Category

1. Cannabis Stocks
2. Investing

Date
2025/08/18
Date Created
2021/10/19
Author
araghunath