



Could Hexo Stock Be in Some Serious Trouble?

Description

The cannabis sector is one investors have looked to for [growth](#) in recent years. And, for the most part, this sector hasn't disappointed. However, recent quarters have not necessarily been positive for investors in **Hexo** ([TSX:HEXO](#))([NASDAQ:HEXO](#)) stock.

Since hitting a high of more than \$10 per share this year, Hexo stock has given up approximately 80% of its value from its peak. For value investors, this may be an interesting time to look at this stock. After all, Hexo currently has a 13% share of the recreational cannabis market of Canada.

However, recent happenings around this company suggest more headwinds could be on the horizon. Let's take a look at why the market appears to be so bearish on Hexo stock right now.

Hexo stock continues slide following earnings

Shares of Hexo stock recently made a new 52-week low, following concerns noted in the company's [Q4 earnings release](#).

Hexo did beat revenue expectations this past quarter. For growth investors, that's a good thing.

However, these top-line results were overshadowed by concerns over the company's debt load. Hexo issued an "ongoing concern" warning related to the company's senior secured convertible notes. Currently, Hexo has a total of \$715 million in total liabilities owed to lenders and \$404 million owed in convertible debt.

An ongoing concern warning is typically given for companies worried they may not be able to meet their obligations. Such warnings are material, and investors are factoring this in.

On top of these concerns, the company also acknowledged a lack of effective controls in its financial reporting. Via various consolidations, it appears material misstatements of disclosures could be another headwind to consider.

The chief financial officer of Hexo told analysts that the firm understands the risk of the note, and they consider it very seriously.

Why is this a big deal?

Well, for any company, having adequate cash flow to cover one's obligations is a big deal. Raising debt is great for a fast-growing company with cash flows that are surging at a much higher rate. However, for Hexo, the underlying fundamentals don't appear to be as strong as investors initially thought.

Accordingly, it appears Hexo will need to raise capital in some way in the coming quarters. Whether that's a new debt issuance or an equity offering, investors stand to pay the price.

For now, capital structure concerns appear to be plaguing the cannabis sector. Plant closures and layoffs have been the status quo for a number of quarters now. For Hexo, this is no different.

Until some sort of catalyst comes along, it appears the cannabis sector is one that has some hair on it.

Bottom line

I think there are certainly reasons why investors may want to consider Hexo stock. In the Canadian market, Hexo remains a leader. This is also a company with a strong regional presence in Western Canada.

However, these concerns are grave. Investors ought to take these concerns into consideration when looking at such stocks. For now, it may be best for investors to wait on the sidelines until the dust settles on Hexo stock.

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chrismacdonald

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