HEXO: Down 98% From Record Highs, Is This Cannabis Stock a Buy?

Description

One of the worst-performing companies on the TSX, Canadian cannabis giant **HEXO** (TSX:HEXO)(NASDAQ:HEXO) has lost close to 98% in market cap in the last 30 months. HEXO stock touched a record high of $42 in April 2019 and is currently trading at $1.02 per share, at the time of writing.

Let's see what impacted HEXO shares in 2021 and if it should be part of your portfolio right now.

HEXO reports fiscal Q1 results

HEXO recently announced its fiscal Q1 of 2022 results that ended in October and reported revenue of $50.2 million, which was an increase of 52.6% year over year and a sequential rise of almost 30%. While revenue growth was impressive, HEXO's net loss widened to $91.3 million compared to just $4.1 million in the year-ago period and $68 million in Q4 of fiscal 2021. A majority of HEXO's top-line growth can be attributed to the recent acquisitions of 48North, Redecan, and Zenabis, which were completed in Q4 of 2021.

While HEXO is the second-largest cannabis company in Canada in terms of market share, its massive losses and high cash-burn rates have investors worried over the long-term sustainability of the company.

In the last 12 months, HEXO booked an operating loss of $118 million on sales of $144.8 million. Its almost impossible for the company to avoid another round of shareholder dilution in the future, given that it also has to service over $300 million in debt.

Alternatively, in its Q1 earnings call, HEXO announced a strategic plan called The Path Forward, where it outlined goals to become the first Canadian marijuana producer to report a positive cash flow in 2022 by lowering costs, improving profitability, and streamlining operations.

HEXO stock downgraded by Wall Street

Last week, investment banks **CIBC** and **Canaccord Genuity** downgraded HEXO stock to “sell.” While CIBC lowered its price target to $0.62 per share, Canaccord cut price targets by 50% to $0.77 per share.

CIBC analyst John Zamparo explained HEXO is overly optimistic with regards to attaining positive cash flow in the next year, given its net loss stood at $90 million in the most recent quarter. The cannabis market in Canada remains challenging, as licensed producers are impacted by an increase in competition, a thriving black market, high inventory levels, and consistent losses.

Zamparo, in fact, believes HEXO will have to issue 200 million new shares in the next six months to keep operations running. Right now, HEXO has around 355 million shares outstanding.

What’s next for investors?

HEXO is a market leader in the Canadian cannabis market and is expected to increase sales by 84% to $227.66 million in fiscal 2022 and by 31% to $298 million in fiscal 2023. Bay Street also expects its loss per share to narrow from $0.89 in 2021 to $0.22 in 2023. But, as seen above, HEXO is wrestling with multiple issues, making it a high-risk bet, despite its depressed valuation.

Shares are also down 78% year to date, and its stock price on the NASDAQ has fallen below $1, which means it will be delisted soon. Last year, HEXO orchestrated a 4:1 reverse stock split to keep trading on the NASDAQ, and it may have to employ the same strategy sooner rather than later.

There are far better companies trading on the TSX for you to place your bets on and generate market-beating gains in 2022 and beyond.

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