Hexo Stock Fell 10% in November – Is It a Buy Today?

Description

Shares of Canadian cannabis company **Hexo** (TSX:HEXO) continued to trail the broader market and declined by 10% in November 2022. Currently, HEXO stock is down 99.5% from all-time highs, wiping off significant investor wealth in the last four years.

Investors were extremely bullish on Canadian marijuana stocks when the country legalized cannabis for recreational use in October 2018. Hexo stock had, in fact, surged from $7.60 in March 2017 to an all-time high of $41.40 in April 2019. It's currently priced at $0.225, valuing the company at a market cap of $135 million.

Hexo is among the worst-performing TSX stocks in recent years. Not surprisingly, as the Canadian cannabis sector continues to wrestle with mounting losses, rising competition, multi-billion-dollar writedowns, high inventory levels, and shareholder dilution, among other challenges.

In the last three fiscal years, Hexo's operating losses have totaled more than $450 million. What might worry investors more is that the company reported a negative gross profit of $75.6 million in fiscal 2022 (which ended in July).

While past performance should not matter much to investors, let's see if Hexo stock should be part of your portfolio right now.

HEXO stock has weak financials

Hexo is undertaking several steps to strengthen its balance sheet. In July, it entered into a transaction with **Tilray** to recapitalize its balance sheet. Following this restructuring, Hexo has the financial flexibility to improve profit margins in the next year.

The company emphasized that fiscal Q4 2022 was a period of strategic realignment as Hexo looks to expand its presence in the Canadian cannabis market. Julius Ivancsits, the acting chief financial officer of Hexo, stated, "Re-financing of the senior secured convertible note deleveraged the balance sheet and boosted cash reserves, allowing us to focus on profitable growth."

In recent months, Hexo has reduced personal costs by $65 million, divested from businesses that do not offer it a competitive advantage, and trained its guns on improving the bottom line by upgrading its product mix and optimizing working capital.

In fiscal Q3, Hexo also entered into an agreement with KAOS Capital, whereby the latter will provide $180 million via an equity purchase agreement. Here, Hexo will be able to access $5 million each month for a 36-month period to ensure debt and interest repayments can be met. Hexo will use 60% of these proceeds toward debt and interest payments.

What is HEXO stock's target price?

Hexo's stock price will depend a lot on the company's ability to improve its financial performance. It ended fiscal 2022 with $83.3 million in cash and $250 million in debt. Management confirmed it has enough liquidity to meet working capital and operating cash flow requirements for the next fiscal year.

But, Hexo is subject to a minimum liquidity covenant of $20 million. Further, its 8% convertible debenture matures this December and will require a cash payment of $40,140.

It's also possible that Hexo's cost-savings initiatives will not yield enough operating cash flow to meet covenant requirements.

Hexo is forecast to report sales of $180 million in fiscal 2023, a decline of 6% year over year. An adjusted loss is also forecast at $0.04 per share, compared to a loss of $2.72 per share in the year-ago period.

Hexo's tepid revenue growth and extremely weak financials make it a high-risk bet for investors despite its depressed valuation. But analysts expect shares to surge by almost 40% in the next 12 months.

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