



Why You Need to Invest in This Cannabis Stock Right Now

Description

The cannabis stocks have lost significant market value since July 2019. The **CannTrust** [scandal drove the overall market lower](#).

Earlier this month, **Canopy Growth** announced its quarterly results which did not inspire investor confidence. These events drove cannabis stocks lower. So, does this pullback provide an opportunity for investors?

Shares of leading cannabis company **HEXO Corp** ([TSX:HEXO](#))(NYSE:HEXO) have fallen 45% since April 2019. HEXO was publicly listed back in March 2017 and has returned 200% since then. HEXO shares are currently trading at \$5.74, which is 49% below its 52-week high of \$11.29.

HEXO stock will be driven by robust sales

We know that a company's stock price is primarily driven by its revenue and earnings growth. Analysts expect HEXO sales to rise by a whopping 1,110% to \$59.67 million in fiscal 2019 (year ending in July) and by 452% to \$329.5 million in 2020.

While the company's earnings per share (or EPS) growth will be flat in 2019, it's estimated to improve by 171% in 2020.

HEXO stock is trading at a forward price to earnings multiple of 48, which suggests that the stock is grossly undervalued given its earnings growth in 2020.

Analysts are optimistic about HEXO as well. They have an average 12-month target price of \$10.37 for HEXO, indicating an upside potential of 80% from its current price.

What will drive HEXO's revenue growth?

HEXO wants to become the leading cannabis player in the Ingredients for Food segment. The

company aims to achieve this goal by maintaining a top 3 market share where its products are sold.

Its strategy includes building a strong portfolio of consumer-centric brands and leveraging the HEXO brand via partnerships. HEXO aims to expand in international markets of Europe and Latin America with a primary focus on Greece.

HEXO has estimated the global cannabis market at USD \$250 billion. Major countries in North America such as Canada and several states in the United States have legalized medical cannabis use. Central American countries such as Chile, Uruguay, and Colombia have legal cultivation of cannabis plants.

HEXO is also eyeing massive opportunity in Europe, which is slated to become the largest medical cannabis market in the world.

Growth via partnerships

HEXO has claimed to have secured the largest forward supply contract among licensed producers in Canada. It secured a Société québécoise du cannabis contract with Quebec, which might result in annual sales of \$1 billion in the next five years.

It acquired **Newstrike Brands** [earlier this year](#). HEXO now has dried flower production capacity of 150,000 kilograms across four campuses. This acquisition will result in annual synergies of \$10 million.

HEXO has also entered into a joint venture partnership with **Molson Coors**. While HEXO has large Canadian distribution networks and production capacities for cannabis ingredients, Molson Coors has a deep understanding of the consumer market and a solid distribution network in the U.S., U.K., and Mexico.

Another major driver for HEXO's stock price will be its profitability. HEXO is one of the few cannabis companies that will be profitable by the end of 2020. Its net margin in fact is estimated to reach a healthy 16.7% in fiscal 2021. Clearly, it's about time to hop on the HEXO bandwagon.

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1. Cannabis Stocks
2. Investing

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1. HEXO
2. HEXO Stock

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