Tilray Inc's (NASDAQ:TLRY) Epic 755% Rally

Description

Vancouver-based **Tilray** (NASDAQ:TLRY) became the largest cannabis stock Tuesday after a late-summer rally sent its market cap as high as US$14.4 billion. While **Canopy Growth** (TSX:WEED)(NYSE:CGC) had a larger nominal market cap, Tilray was worth more after accounting for the CAD-USD exchange rate.

From the time of its IPO, when it traded for just $17, to its Tuesday close of $154, Tilray shot up a staggering 755%. The stock's volatility was out of control on Wednesday, when traded in a range between $182.50 and $233.

While all Canadian pot stocks have done well this summer, Tilray is up the most by far. This is strange given that the company's annual revenues fall short of Canopy's at around $20 million (compared to Canopy's $70 million). However, when we look closer, there are some obvious factors driving the major rally that Tilray is currently experiencing. The clue to the first lies in the ticker symbol.

U.S. listing

Unlike **Aurora Cannabis** or **Aphria**, Tilray has a U.S. listing. Specifically, it trades on the NASDAQ. Although the company is based in Nanaimo, B.C., management decided to list the company on the NASDAQ to court U.S.-based institutional investors.

This may have been a wise decision. Although there's nothing stopping U.S. investors from buying TSX stocks, the CAD-USD exchange rate adds a layer of complexity to cross-border investments. In addition to all the usual calculations you have to make when analyzing a stock, you need to factor in the effect of currency fluctuations when investing on an exchange based in a country other than your own.

For example, if you're based in Toronto and you buy $100,000 worth of U.S. stocks, and the U.S. dollar declines 20% against the loonie, you've technically lost 20% of your Canadian dollar value. Although the effect ends up being the same as if you had held your stocks in the U.S. account, the currency fluctuations make calculating your returns more difficult.

It’s possible that Tilray is attracting U.S. investors who don’t want to deal with the confusion of buying stocks on the TSX. Cannabis is a hot topic in the U.S. as well as Canada, and Tilray is one of the more straightforward cannabis plays for them to make. And since the population south of the border is about 10 times higher, that naturally results in a lot of money pouring into Tilray.

Close to profitability

Another factor that could be driving Tilray’s growth is the company’s financial performance. Although Tilray has had persistently negative net income (like most cannabis stocks), it’s closer to profitability than Canopy, its closest competitor.

In 2017, Tilray had a net loss of around $7 million on revenues of about $20 million. Canopy, however, lost $70 million on revenues of about $78 million. Additionally, Canopy’s net loss is growing larger over time, reaching as high as $90 million in the most recent quarter. Put simply, Tilray’s net loss is proportionately smaller (compared to revenue) than Canopy’s is. This could have the effect of attracting investors who expect their cannabis stocks to actually turn a profit someday, rather than simply gaining in the market because of hype.

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