



Cannabis Investors: This Canadian Company Is Expected to Grow Sales by 1,100% in 2020

Description

Shares of **Auxly Cannabis Group** (TSXV:XLY) have been pummeled over the last year. Similar to most pot stocks, Auxly has also burnt significant investor wealth. Auxly stock is trading at \$0.64 and has lost 75% in market value since January 2018.

Has Auxly stock bottomed out? Will it gain momentum as we inch closer to 2019? If Auxly shares move higher, what will drive the stock rally?

Robust revenue growth

Auxly Cannabis is involved in the production of cannabis products for the medical, wellness, and adult-use markets. It also provides capital to fund cannabis facility expansions and operations in exchange for a portion of the cultivation production and a minority stake.

Auxly is bullish about long-term prospects in the marijuana space. According to Auxly management, [the marijuana market in Canada](#) is estimated to rise from \$6 billion in 2019 to \$11 billion in 2025. So, how will Auxly benefit from this growth?

Analysts tracking Auxly expect company sales to rise by 815% to \$6.86 million in 2019. This growth is estimated to accelerate to 1,100% to \$82.9 million in fiscal 2020. Analysts expect sales to reach \$171 million in 2021.

Auxly Cannabis is valued at \$408 million in terms of market cap. It is trading at a forward market-cap-to-sales multiple of 59.9. But this high multiple is supported by robust growth metrics.

Auxly's revenue growth will also help the company expand profit margins. Analysts expect Auxly's EBITDA to decline from -\$28.1 million in 2018 to -\$38.7 million in 2019. This is estimated to improve to -\$13 million in 2020 and \$49.3 million in 2021.

Operational and distribution strategy

Auxly has a diversified supply of raw cannabis with a cultivation capacity of 100,000 kg per annum. This includes production from wholly owned subsidiaries, offtake agreements, joint ventures, and streaming partners.

The company has created a portfolio of products and brands to gain traction in Canada's growing marijuana market. Auxly is optimistic its brand portfolio will accelerate growth and appeal to a broad spectrum of current and potential customers. It's brand platform includes internally developed products as well as those developed with a third-party licence.

Auxly aims to pursue a multi-faceted strategy to gain access to customers. This includes a wholly owned flagship retail store. Auxly is also looking to increase retail collaborations, invest on independent retailers and have supply agreements with provincial boards in Canada.

The average recreational cannabis buyer is not brand conscious. A cannabis customer is more loyal to the retail or online store, which is more accessible rather than a particular brand. The high regulatory nature of cannabis has resulted in a slow rollout of retail stores in Canada.

This has severely impacted revenue growth for most cannabis players. Auxly's focus on the retail space will hold it in good stead as the industry continues to grapple with oversupply issues.

Auxly is also banking on the cannabis derivatives products market to drive sales. It has a facility at Dosecann, which is currently working on products such as cannabis-infused edibles, extracts, and wellness-based products.

In case the initial response to Cannabis 2.0 products is encouraging, investors can expect pot stocks, including Auxly, to gain momentum by the end of 2019.

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