Available at a Discount Over 50%: Should You Buy These 2 Cannabis Stocks?

Description

The slew of structural challenges, such as lower-than-expected demand, higher production, thriving black market sales, and pricing pressure, have put pressure on the cannabis sector, with the industry benchmark **Horizons Marijuana Life Sciences Index ETF** trading over 25% down for this year.

However, recreational cannabis sales have been rising after a marginal pullback in April amid the temporary closure of retail stores. In July, Canada's recreational cannabis sales stood at $2316 million, representing a 15.2% rise from its June sales. With provincial governments addressing the issue of the slow rollout of retail stores, all provinces have reported a surge in their sales.

Given the cannabis sales growth, should you buy **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) and **HEXO** (TSX:HEXO)(NYSE:HEXO), which are trading at deeper discounts?

The case for Aurora Cannabis

Aurora Cannabis has been on a downward momentum, losing over 81% of its stock value this year and 96% from its all-time high. The company is yet to become profitable. It has raised capital several times through new equity offerings in the last few years. Further, it wrote down millions of dollars' worth of inventory amid weaker demand and has reported $1.8 billion in goodwill impairment charges, which have weighed on its stock price.

The company's revenue declined 5% on a sequential basis to $72.1 million in its recently completed fourth quarter. The decline in the consumer cannabis segment's revenue due to the unfavourable mix and fall in its vaporizer products' market share dragged its sales down. However, its medical segment's revenue grew 4%, driven by strong performance in the Canadian and European markets.

Its adjusted EBITDA losses improved from $50.4 million to $34.6 million. The improvement in gross margin and lower SG&A (selling, general, and administrative) expenses led to an improvement in its adjusted EBITDA. Meanwhile, the company's management expects to achieve positive EBITDA by the second quarter of fiscal 2021.

So, Aurora Cannabis is working on lowering its production cost and also SG&A expenses to achieve its target. Meanwhile, analysts are skeptical about the company's optimistic target. BMO Capital Markets expects the company to take three years to attain sustainable profitability.

The case for HEXO

This year, HEXO has lost over 50% of its stock value while trading around 90% lower from its all-time high. The company's high cash burn and dilution amid capital raising through new equity offerings have dragged its stock down.

Meanwhile, its top line grew around 30% on a sequential basis to $30.9 million in its third quarter, which ended on April 30. The strong performance from its value brand, Original Stash, and its new product offering drove its sales. Its adjusted EBITDA losses also improved from $8.5 million to $4.3 million. Meanwhile, the company sold its Niagara facility to align its production with the lower-than-expected demand.

In July, HEXO expanded its vape products to all the provinces in Canada. During the same month, it launched its medical products in Israel. Further, in association with beer maker Molson Coors, it has launched five THC- and CBD-infused beverages in Canada. So, its growth prospects look healthy.

Bottom line

Although both companies are available at a deeper discount, I believe investing in both these companies is risker, given their high cash burn and lower liquidity position. Meanwhile, investors looking for cannabis exposure could invest in **Canopy Growth** or **Aphria**, which have a strong balance sheet and a viable business model.

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Date
2025/08/21
Date Created
2020/10/14
Author
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