Tilray: Will the Largest Canadian Pot Stock Outperform the TSX in 2021?

Description

In May 2021, **Tilray** (TSX:TLRY)(NASDAQ:TLRY) merged with Aphria, thereby creating the largest Canadian cannabis company (in terms of sales) in the process. However, several Canadian companies, including Tilray, remain unprofitable due to rising competition as well as high inventory writedowns, among other factors. Alternatively, the marijuana industry should continue to expand in the upcoming decade, especially if the U.S. legalizes pot at the federal level.

Does this make it the right time to add Tilray stock to your portfolio?

Tilray and Aphria's big-ticket acquisitions

Prior to the merger, both Tilray and Aphria acquired companies. Last November, Aphria bought U.S.-based craft beer maker SweetWater Brewing, which should accelerate its entry into the cannabis beverage market south of the border once marijuana is legalized. Similarly in October 2020, Tilray entered the cannabis derivatives market with a new line of edibles via its subsidiary High Park Holdings.

These acquisitions provide the combined entity the resources to compete with giants such as **Canopy Growth** and **HEXO**, which are rapidly expanding in Cannabis 2.0 space.

In Q4 of 2020, Tilray's sales were up 20.5% year over year at US$57 million, and revenue rose 26% to US$210 million in 2020. It also reported an adjusted EBITDA of US$2.2 million compared to a loss of US$35.3 million in 2019. It was the first quarter where Tilray's adjusted EBITDA was positive.

Aphria, however, has generated a positive adjusted EBITDA for seven consecutive quarters, which suggests the combined company should be profitable after the integration.

Both Tilray and Aphria aimed to gain traction in Europe, where the cannabis market is expected to touch US$37 billion by 2027, growing at an annual rate of almost 30% in the next seven years.

Aphria has a sizeable presence in Germany's medical marijuana market due to its CC Pharma subsidiary, while Tilray has a licensed cannabis production facility in Portugal.

What's next for investors?

Several analysts in Wall Street are bullish on Tilray's long-term prospects. According to Jeffries analyst Owen Bennett, Tilray stock might rise to US$23 in the next 12 months due to its leadership position in Canada. Likewise, Pablo Zuanic from Cantor Fitzgerald has a price target of US$22 for TLRY and is optimistic about the company's diversified revenue base and its geographic distribution.

Tilray stock is currently trading at US$18.1, valuing the company at a market cap of US$8.06 billion. Analysts tracking the stock expect sales to rise from US$562 million in 2021 to US$861 million in 2022. This expansion in the top line will allow the pot heavyweight to improve its loss per share from US$1.69 in 2021 to US$0.22 in 2022.

It means Tilray stock is trading at a forward price-to-2022-sales multiple of less than 10, making it cheaper to peers including Canopy Growth and **Cronos Group**.

Tilray ended Q1 with a cash balance of US$2.32 billion and US$1.72 billion in debt, providing the company with sufficient liquidity to improve profit margins over time, making it a good bet for investors with a high-risk appetite.

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