



Sundial vs. Cresco Labs: Which Cannabis Stock Is a Better Buy?

Description

When Canada legalized cannabis three years back, investors were bullish on marijuana stocks that were well poised to create massive wealth over the long term. However, most pot stocks in Canada have flattered to deceive, burning significant wealth for investors in the process. We'll compare Canadian marijuana producer **Sundial** ([NASDAQ:SNDL](#)) with **Cresco Labs** ([CNSX:CL](#)), one of the [fastest-growing](#) cannabis companies south of the border.

Sundial is looking to pivot its business

Sundial Growers went public on the NASDAQ two years back and [has since declined](#) by 92% in market value. While the cannabis market continues to expand in Canada, Sundial has been grappling with falling sales and widening profit margins. The company's revenue has declined from \$75.86 million in 2019 to \$60.9 million in 2020. However, its operating loss has expanded from \$55.6 million in 2019 to \$97.2 million in 2020.

Due to a negative profit margin, Sundial, like most of its peers, has raised equity capital multiple times in the last two years, diluting shareholder wealth at an alarming rate. Now, Sundial is looking to reduce its product portfolio and shift towards high-margin items to boost its bottom line.

In Q2 of 2021, Sundial sales stood at \$9.15 million, which was a decline of more than 50% year over year compared to sales of \$20.19 million in the prior-year quarter. Sales were also lower than consensus estimates of \$9.43 million. Sundial, however, reduced its adjusted EBITDA loss to \$200,000 from \$3.9 million in Q2 of 2020.

Sundial has managed to vertically integrate its cannabis operations following the acquisition of the Spiritleaf retail network. It also aims to expand its investment business segment in partnership with SunStream Bancorp.

In fact, Sundial derived \$3.34 million in interest and fee revenue as well as \$2.36 million in investment revenue in the second quarter. This is quite impressive given that the business did not exist in the year-ago period.

Cresco Labs is up 1.9% year to date

Cresco Labs stock has underperformed the broader markets in 2021, as it has gained less than 2% year to date. However, the stock is up 90% since its IPO in late 2018 and is positioned to deliver robust returns in 2021 and beyond.

In the second quarter of 2021, Cresco Labs reported sales of US\$210 million, which was an increase of 122.8% year over year. This allowed the company to post an EBITDA of US\$45.5 million and a net income of US\$2.7 million. Cresco reported a positive net income for the first time ever in Q2.

Cresco is one of the largest cannabis companies in the world with 32 dispensaries and 44 licences. Its wholesales revenue in Q2 stood at US\$108.7 million — an increase of 98% year over year. The company's gross margin also improved significantly to 48%, up from just 33.7% in the year-ago period.

Earlier this year, Cresco spent \$213 million to acquire Bluma Wellness, which has eight dispensaries with licences to open seven other outlets. The acquisition provided Cresco an opportunity to gain a foothold in Florida, which is one of the largest medical marijuana markets in the U.S.

The Foolish takeaway

It's easy to choose between Cresco and Sundial. While Sundial is struggling with losses and cash burn, Cresco has raced towards profitability. Cresco stock is also valued at a lower multiple and growing at a faster pace, making it a top bet for growth investors.

CATEGORY

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2. Investing

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Date

2025/09/26

Date Created

2021/08/25

Author

araghunath

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