HEXO vs. Sundial: Which Canadian Cannabis Stock Is a Buy Right Now?

Description

After more than two years of underperforming the markets, investors will be hoping for Canadian cannabis stocks to gain momentum by the end of 2021. A majority of marijuana players in Canada were hit by a slew of structural issues as well as the ongoing pandemic in addition to constant equity capital raises that diluted shareholder wealth significantly.

Several cannabis producers are looking to narrow their losses by focusing on supply chain improvements as well as selling high-margin products. Here, we compare **HEXO** (TSX:HEXO)(NYSE:HEXO) and **Sundial** (NASDAQ:SNDL) to see which is a better stock to buy right now.

HEXO stock is down 34% in 2021

Shares of HEXO have declined by 34% in the first eight months of 2021. It's also down 93% from record highs, offering investors a chance to buy the dip. The cannabis giant has managed to increase sales from $4.93 million in fiscal 2018 to $80.7 million in fiscal 2020 that ended in July. Now, analysts expect HEXO sales to touch $128 million in fiscal 2021 and $256 million in 2022.

However, despite the company's stellar top-line growth, HEXO continues to remain unprofitable. In fact, in 2020, it reported a gross loss of $58 million and an operating loss of $163 million.

HEXO's stellar revenue growth forecast for the next four quarters will be on the back of the company's acquisitions this year. In the first six months of CY 2021, HEXO disclosed three big-ticket acquisitions, including Redecan, which is Canada's largest privately held cannabis producer.

Analysts also expect HEXO's bottom line to improve from a loss per share of $7.08 in fiscal 2020 to a loss of $0.12 per share in 2021. Given the stock has 201 million shares outstanding, its total losses in 2022 will be around $24 million. It ended the quarter ended in May with a cash balance of $81 million and will have to raise additional capital to fund its acquisitions and cash burn.

HEXO stock, in fact, fell over 25% on Aug. 20 after the company announced it will raise additional capital at an offering of $2.95 per unit.

Sundial stock is down 94% from record highs

After going public two years back, Sundial stock is down 94% from record highs. While HEXO is targeting inorganic growth to gain traction in a highly competitive market, Sundial is looking to pivot its business.

Sundial has already reduced its product portfolio to improve profitability. It has also entered the cannabis financing space to provide capital to other marijuana companies. Between September 2020 and February 2021 Sundial issued 1.15 billion shares, which have increased its total share count to more than two billion.

One thing going right for Sundial is, the company is debt-free, and with a cash balance of $986 million, it has enough room to improve profitability going forward.

The Foolish takeaway

We can see that both HEXO and Sundial will remain volatile in the near term. But HEXO's recent acquisitions and rising market share make it a better bet compared to Sundial, which is revamping its business model.

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