Why This Pot Stock Could Outperform Canopy Growth (TSX:WEED)

Description

While most equity markets are trading near record highs, Canadian cannabis companies have lost significant momentum in the last 30 months. Domestic marijuana producers are trailing the broader markets for a variety of reasons, including slower-than-expected demand. Cannabis giant **Canopy Growth** (TSX:WEED)(NYSE:CGC) has been rangebound in 2021 but is down 71% from all-time highs.

Canopy Growth continues to burn cash

One of the largest cannabis companies in the world, Canopy Growth has seen its revenue rise from $77.94 million in fiscal 2018 to $546 million in fiscal 2021 ended in March. However, its operating loss has also widened from $78.87 million to $586 million in this period. Bay Street now expects the company's sales to rise to $703 million in 2022 and to $944 million in 2023. Comparatively, its loss per share is forecast to narrow from $4.69 in 2021 to $0.42 in 2023.

In the June quarter, Canopy Growth increased sales by 23% year over year to $136.2 million. But it was lower than the revenue of $148.4 million for the quarter ended in March 2021, which is not in line with the robust growth of the Canadian cannabis industry this year.

Canopy's asset impairment charges stood at $89.2 million in fiscal Q1 of 2022, significantly higher than the year-ago figure of $12.8 million. Another area of concern for investors is Canopy's cash burn that stood at $165.8 million in Q1 compared to $118.5 million in the prior-year period.

Despite the stock's massive pullback since early 2019, Canopy Growth is valued at a forward price-to-sales multiple of almost 12 times given its market cap of $8.36 billion. While Canopy Growth stock will remain volatile going forward, we can take a look at another cannabis company south of the border that is positioned to crush the broader markets in the upcoming decade.

Trulieve Cannabis is down 49% from record highs

Shares of cannabis giant, **Trulieve Cannabis** (CNSX:TRUL) are also down 50% from record highs. In the second quarter of 2021, Trulieve increased sales by 78% to $215.1 million, while adjusted EBITDA rose by 55% to $94.8 million. Trulieve has, in fact, increased sales from $103 million in 2017 to $521 million in 2020.

Wall Street forecasts sales to touch $902 million this year and $1.34 billion in 2022. Its earnings per share are also estimated to improve from $0.53 in 2020 to $1.41 in 2022.

A key revenue driver for Trulieve's revenue growth is the company's upcoming acquisition of **Harvest Health** for $2.1 billion, which will also add 42 dispensaries to the company's portfolio. Harvest Health sales rose to $231.4 million in 2020, up from $116.78 million in 2021.

Trulieve sales and net income have both surged by 89% year over year in the first six months of 2021 to $408.9 million and $71 million, respectively. Comparatively, its adjusted EBITDA has risen by 87% to $185.7 million in this period.

Trulieve enjoys a leadership position in Florida's medical marijuana market with a share of 46%. It is now looking to expand to other states, which will allow the company to grow revenue and improve profit margins in 2021 and beyond.

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araghunath