Why This Pot Stock Could Soar Past Aurora Cannabis!

Description

Investing in cannabis companies carries significant risks. The marijuana industry is growing at a rapid pace but it's also at a nascent stage, making it vulnerable to macro-economic shocks (read COVID-19) and a slew of other structural issues. We have already seen Canadian marijuana producers including **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) grossly underperform the equity markets since the start of 2019, burning massive investor wealth in the process.

Aurora Cannabis remains a high-risk bet

According to a report from BDSA, a cannabis-focused analytics company, Canada's marijuana sales are forecast to almost triple from $2.6 billion in 2020 to $6.4 billion in 2026. But investors should note that not all cannabis companies will be successful over the long term, despite a rapidly expanding addressable market. Shares of Aurora Cannabis have already fallen 94% from record highs but continue to remain vulnerable at current levels.

Aurora Cannabis had 15 production facilities and was on track to become the world's largest cannabis producer at peak production capacity. But the slower-than-expected rollout of retail stores in Canada weighed heavily on demand. Further, Aurora's overvalued acquisitions and significant losses contributed to its pullback in stock price over the last two years.

At the start of CY 2020, Aurora Cannabis had $3.17 billion in goodwill on its balance sheet, a significant portion of which has been written down over the last few quarters.

Aurora Cannabis has also diluted shareholder wealth at an alarming pace. In the last seven years, the company's outstanding share count has increased from 1.3 million to 198 million. Despite constant capital raises, reduction in the product portfolio, and cost-cutting measures, Aurora Cannabis continues to grapple with negative profit margins.

The company is expected to report a loss per share of $0.76 in fiscal 2022 which means it will lose close to $150 million in the next 12 months. There is a good chance that ACB will have to keep raising equity capital to support its cash burn in the near term.

Planet 13 Holdings is a much better stock

While ACB is a company with poor fundamentals, there is another stock south of the border growing at a fast pace with a positive adjusted EBITDA. **Planet 13 Holdings** (CNSX:PLTH) is a vertically integrated cannabis company that recently announced its second-quarter results.

Its revenue more than tripled to $32.8 million in Q2 of 2021, compared to $10.8 million in the year-ago period. Its gross profits before biological adjustments improved to 56.9% from 43.8% in this period.

Its net loss before taxes narrowed to $0.9 million, compared to $3.3 million in Q2 of 2020. Planet 13 reported an adjusted EBITDA of $7.2 million compared to an EBITDA loss of $0.6 million in the last year's quarter. Planet 13 also ended Q2 with a cash balance of $136.3 million, up from $79 million in Q2 of 2020.

The company has managed to increase its sales from $21.16 million in 2018 to $70.49 million in 2020. In the last 12-month period, its sales have almost touched $100 million. Planet 13 stock is trading at a premium given its market cap of $982 million, but we can see its steep valuation is supported by robust growth in revenue and profitability.

CATEGORY

1. Cannabis Stocks
2. Investing

TICKERS GLOBAL

1. CNSX:PLTH (Planet 13 Holdings Inc.)
2. NASDAQ:ACB (Aurora Cannabis)
3. TSX:ACB (Aurora Cannabis)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. araghunath

2. arosenberg

Category

1. Cannabis Stocks
2. Investing

Date
2025/07/21
Date Created
2021/09/02
Author
araghunath