



Forget Lucid: Buy This TSX Stock Instead

Description

In the last two years, electric vehicle (EV) stocks have gained massive traction. Since the start of 2020, **Tesla** stock has returned over 1,100% to investors, and it also touched a market cap of US\$1 trillion this year. Similarly, EV companies such as **Lucid Group** ([NASDAQ:LCID](#)) are yet to post any material revenue, but it already commands a [market cap](#) of US\$72 billion at the time of writing. LCID stock has surged 338% in 2021 but is also down 24% from all-time highs.

Why is Lucid stock a high-risk bet?

Lucid's Dream Edition line-up of EVs has [a certified range](#) of 520 miles on a single charge, which is the highest among any brand operating in this segment. The company is also part of a rapidly expanding addressable market given the accelerated shift towards clean energy solutions at the global level.

As of November 2021, Lucid had an order book of US\$1.3 billion with 17,000 vehicle reservations. It forecasts sales to touch US\$2 billion in 2022 and rise to US\$10 billion in 2024. Tesla's trailing 12-month sales surpassed the US\$10 billion mark in mid-2017, and the EV leader was then valued at a market cap of US\$70 billion. Tesla ended 2017 with US\$11.78 billion in sales but still posted an operating loss of US\$1.63 billion that year.

So, investors should understand that despite Lucid's stellar growth prospects the stock remains overvalued at current levels. While the company ended Q3 with US\$4.4 billion in cash, the automobile industry is capital intensive and cyclical, making LCID a high-risk bet right now. Several legacy players are also entering the EV space, which will negatively impact the pricing power of Lucid Group in the upcoming decade.

There is a good chance that Lucid will have to raise capital several times to fund its expansion plans, which will result in rising debt on its balance sheet or a dilution in shareholder wealth. Due to its steep valuation, LCID stock is also vulnerable if markets turn bearish or if it reports a quarter with lower-than-expected sales of earnings figures.

Auxly Cannabis has significant upside potential

A micro-cap stock valued at a market cap of \$180 million, **Auxly Cannabis** (TSXV:XLY) has increased sales from just \$8 million in 2019 to over \$50 million in 2020. Analysts tracking Auxly forecast revenue to touch \$84 million in 2021 and rise to \$148 million next year, valuing the stock at a forward price-to-2022 sales multiple of 1.3 times, which is very reasonable.

Auxly Cannabis has [successfully](#) increased its market share in Canada's Cannabis 2.0 business. It leads the vape sales in Canada, and Auxly's three vape products are among the top five brands in the country.

In Q3 of 2021, Auxly Cannabis net sales almost doubled to \$24.5 million, and it ended the quarter with a market share of 5.6%, making it the sixth-largest cannabis producer in Canada.

Analysts tracking Auxly stock have a 12-month average price target of \$0.53, which offers investors an upside potential of almost 150% from current levels.

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Author

araghunath

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