



Down Over 10% for This Year: Should You Buy These 2 Cannabis Stocks?

Description

Despite the concerns over rising inflation and the expectation of the U.S. Federal Reserve raising interest rates, the **S&P/TSX Composite Index** rose 0.7% for this year. Higher commodity prices and the easing of the Omicron variant threat appear to have increased investors' confidence, driving the Canadian equity markets higher. However, the following two cannabis stocks have lost over 10% of their value this year and trade at substantial discounts to their 52-week highs. So, let's assess the buying opportunities in these two stocks after a steep correction.

Tilray

First on my list is **Tilray** ([TSX:TLRY](#))([NASDAQ:TLRY](#)), which has reported positive adjusted EBITDA for the last 11 quarters, one of the few cannabis companies to do so. Last month, the company reported [an impressive second-quarter performance](#), with its net revenue increasing 20%, while its adjusted EBITDA grew by 35.7%. The growth in cannabis sales and contributions from SweetWater and Manitoba Harvest drove its revenue. Higher revenue and cost synergies from its merger with Aphria boosted its adjusted EBITDA.

Meanwhile, I expect the uptrend in Tilray's financials to continue, given its leadership position in the Canadian recreational space and expanded Cannabis 2.0 product offerings. It has also acquired a 20% market share in the German medical cannabis market. The company hopes to utilize its strong presence to boost its recreational sales upon legalization. With its EUGMP-certified production facilities in Germany and Portugal and an excellent distribution network, it also hopes to strengthen its position in other European countries.

Thanks to its strategic business units, SweetWater and Manitoba Harvest, the company already has a significant presence in the United States. It could utilize these two strategic pillars to expand its THC business in the country upon legalization. Despite its healthy growth prospects, the company has lost over 11% of its stock value this year as of Tuesday's closing price. It currently trades at a 71% discount from its 52-week high. The weakness in the cannabis sector amid the delay in U.S. legalization has dragged the company's stock down.

Given the weakness in the cannabis sector, I expect Tilray to remain volatile in the near term. However, I expect the company to [outperform the broader equity markets over the next three years](#).

Aurora Cannabis

Second on my list is **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB), a market leader in the Canadian medical cannabis space, with a market share of 23%. The segment has significant growth potential, as only 1% of Canadians currently use cannabis for medical purposes. The company focuses on educating patients and navigating them through alternative treatments to expand the market. It has also allocated more resources to drive growth. Meanwhile, the company is also expanding its footprint in Europe, which could reach an addressable market of \$3.5 billion by 2025.

Aurora Cannabis is focusing on the premium product segment in the recreational market, with higher THC content. To further its global recreational cannabis strategy, the company is working on acquiring a substantial stake in Growery B.V., a Netherlands-based cannabis company. Despite its healthy growth prospects, the company has lost 22% of its stock value this year. Meanwhile, it is currently trading at a 78% discount from its 52-week high. So, given its healthy growth prospects, improving financials, and discounted stock price, I expect the company to deliver superior returns over the next three years.

CATEGORY

1. Cannabis Stocks
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