Down 97% From Record Highs, Is Sundial Stock a Buy Right Now?

Description

Canadian cannabis company **Sundial Growers** (NASDAQ:SNDL) has been among the worst performers on the bourses since the stock went public in August 2019. Soon after its initial public offer, SNDL stock was priced at a high of US$11.5 and is now trading 97% below that, at US$0.56.

Let's see what impacted Sundial stock in the past and if it is a good contrarian buy right now.

Sundial has massively diluted shareholder wealth

A key reason for the underperformance of Sundial can be attributed to shareholder dilution. In the five-month period between September 2020 and February 2021, the company issued 1.15 billion shares to offset its cash burn and lower its debt balance.

Further, last September, Sundial disclosed it will reduce its product portfolio and liquidate low-margin items to improve the bottom line. Sundial's revenue was impacted by COVID-19 as its sales in 2020 stood at $60.9 million, compared to $75.8 million in 2019. Due to its strategic decision to exit certain markets, Sundial's revenue in the last 12 months stood at $47.26 million.

In Q3 of 2021, Sundial reported sales of $14.4 million, an increase of 57% on a sequential basis. The growth in revenue was due to higher retail sales and the acquisition of Inner Spirit Holdings. However, its cultivation and production revenue stood at $8.2 million in Q3 compared to $9.2 million in Q2 and $9.9 million in Q1.

Sundial has burnt $173 million from its operating activities in the last four quarters. In Q3, its cash burn was $56 million, compared to $20 million in the year-ago period. As the company continues to focus on its retail cannabis business as well as the acquisition of Alcanna, its cash burn number might increase in the near term.

Sundial ended Q3 of 2021 with $571 in cash, providing it with enough liquidity right now. However, the balance could erode swiftly if Sundial goes on an acquisition spree, resulting in further shareholder dilution.

What next for SNDL stock?

In Q4 of 2021, Wall Street expects Sundial to report sales of $13.25 million, an increase of 15.4% year over year. However, it's also expected to end 2021 with a loss per share of $0.07 which translates to net losses of $168 million.

Now, Sundial's revenue might increase to $625.4 million in 2022 due to the Alcanna acquisition, which is one of the largest liquor retailers in Canada. Further, Alcanna's subsidiary, Nova Cannabis, owns and operates 78 retail outlets across several provinces.

SNDL stock is valued at a forward price to sales multiple of less than three, which is quite reasonable given its growth forecasts. Despite falling sales, Sundial's focus on selling high-margin products allowed the company to report an adjusted EBITDA of $10.5 million in Q3 of 2021. Analysts expect SNDL to break even on an adjusted basis by the end of 2022.

The Foolish takeaway

Sundial remains a high-risk bet considering the possibility of further shareholder dilution and less than impressive revenue growth. I believe there are far better pot stocks you can buy right now, given the risk-reward profile of Sundial.

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