2 Cannabis Stocks Better Than Sundial Growers

Description

Sundial Growers (NASDAQ:SNDL) has been among the worst-performing cannabis stocks on the equity market. Similar to most other cannabis producers in Canada, Sundial is wrestling with a range of issues that include shareholder dilution, low profit margins, high inventory levels, an increase in competition, overvalued acquisitions, and cannibalization from illegal markets, among others.

In the last few quarters, Sundial has looked to improve its bottom line by focusing on the sale of high-margin items and reducing its product portfolio. It has also financed other cannabis producers, thereby diversifying its revenue base.

At the time of writing, Sundial shares are down a staggering 96% from all-time highs, valuing the company at a market cap of US$1.27 billion. Comparatively, Sundial is forecast to end 2021 with sales of $44 million, valuing it at a price-to-sales multiple of over 22, which is extremely steep.

Generally, investors pay a premium for a particular stock if the company has been expanding its top line rapidly or enjoys a certain competitive advantage that will drive future sales. However, Sundial is struggling to grow its revenue and reported losses totaling $240 million in the last four quarters, making the stock a high-risk bet.

Canadians who want to gain exposure to the cannabis sector can instead look to buy marijuana stocks south of the border. Due to a much larger addressable market and the recent wave of legalization, cannabis companies in the U.S. are widening their profit margins as well as revenue at an enviable pace. Here are two pot stocks that you can buy instead of Sundial Growers.

Green Thumb Industries

Valued at US$3.9 billion by market cap, **Green Thumb Industries** (CNSX:GTII) is one of the largest cannabis companies in the world. It operates 76 retail stores across 15 states, allowing it to end 2021 with almost US$894 million in sales, an increase of 61% year over year.

Green Thumb reported a profit margin of 8.4% and its expenses continue to fall as a percentage of sales due to improvements in the cost of goods sold as well as lower operating expenses. It now aims to expand its footprint in high-margin products such as marijuana-infused edibles and beverages.

Analysts tracking Green Thumb expect sales to rise by 19.5% to US$1.1 billion in 2022 and by 23.2% to US$1.32 billion in 2023. Green Thumb stock is also trading at a discount of over 90% compared to consensus price target estimates.

Cresco Labs

A Florida-based cannabis operator, **Cresco Labs** (CNSX:CL) is valued at US$1.55 billion, by market cap. In Q4 of 2021, Cresco increased sales by 34% year over year to US$218 million while sales for 2021 soared by 73% to US$822 million.

Its robust growth in sales allowed Cresco Labs to more than triple its adjusted EBITDA to US$194 million in 2021.

Cresco Labs ended 2021 with 46 stores, up from 20 stores at the end of 2020. Cresco recently acquired **Columbia Care**, which will bring in US$1.4 billion in pro-forma revenue.

Similar to Green Thumb, Cresco Labs is also trading at a discount of 200% to consensus price target estimates.

CATEGORY

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