



Is Tilray Stock a Buy In December 2022?

Description

Shares of [Canadian cannabis producer Tilray](#) ([TSX:TLRY](#)) are down 50% in 2022 and 90% from all-time highs, valuing the company at a [market cap](#) of \$2.7 billion.

Investors were initially flush with excitement when cannabis was legalized in Canada back in October 2018. Soon after the legalization, marijuana producers were impacted by rising competition, cannibalization from a thriving black market, a slow and painful licensing process, the COVID-19 pandemic, rising inventory levels, and mounting losses.

Several cannabis companies, including Tilray, plowed in millions of dollars to acquire companies and gain traction in various other markets. But pot producers were in high demand at the onset of marijuana legalization in Canada.

So, Tilray and peers paid a hefty premium to acquire these assets, weakening their balance sheet in the process. These overvalued acquisitions also resulted in billion-dollar goodwill impairments, driving share prices lower.

While Tilray increased sales from \$175 million in fiscal 2019 to \$628.3 million in fiscal 2022 (ended in May), its revenue in the last 12 months has fallen to \$613.6 million.

Despite its market trailing performance in the last three years, let's see if Tilray should be part of your equity portfolio in 2022.

Is Tilray stock a buy right now?

Tilray completed the big-ticket acquisition of Aphria last year, making it the largest Canadian producer. While the acquisition brought scale, it did little to improve Tilray's balance sheet. Instead, the company reported its deepest net loss as a publicly listed company in fiscal 2022.

Tilray is now placing its bets on the United States to legalize marijuana at the federal level. The company is well-positioned to enter the largest cannabis market in the world. But there is a good

chance the U.S. will take several years to legalize marijuana consumption federally.

To gain a foothold south of the border, Tilray acquired a few craft beer manufacturers and entered the cannabidiol-infused beverage market. It bought Montauk Brewing, a New York-based craft manufacturer, last month and acquired Colorado-based Breckenridge Distillery in 2021. Tilray also purchased companies such as SweetWater Brewing in 2020 and Manitoba Harvest in 2019 to expand its presence in the United States.

In fiscal Q1 of 2023, Tilray's alcohol business reported sales of \$20.7 million, accounting for 13% of total revenue. Alcohol sales were up 33% year over year, but cannabis revenue slumped 17% year over year to \$58.6 million.

Tilray has diversified its revenue streams and is well poised to leverage its distribution network in the United States once cannabis is legalized in the country.

What next for TLRX stock and investors?

In addition to North America, Tilray is focused on entering new markets in Europe. It currently operates in Germany's medical marijuana market. International cannabis sales stood at \$10.4 million in fiscal Q1 of 2023. Germany is expected to legalize marijuana for recreational use by 2024, providing a significant tailwind for Tilray to grow sales in this region.

Several other countries from the European Union might follow suit. A report from BDS Analytics projects cannabis sales in this market to touch US\$3.9 billion by 2025.

Tilray has multiple expansion opportunities in the next three years. But to address its depressed valuation, it has to shore up its balance sheet to regain investor confidence and stage a turnaround.

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