Is SNDL Stock a Buy in February 2023?

Description

After a disappointing year in 2022, investors are now looking to place bets on beaten-down stocks trading at a lower multiple and derive outsized gains in case markets rebound this year. One such cheap Canadian cannabis stock is **SNDL** (NASDAQ:SNDL), which is currently priced at US$2.30 per share. Let's see if it makes sense to invest in SNDL stock right now after it's trading 98% below all-time highs.

Is SNDL stock a buy or sell?

Similar to most other Canadian marijuana producers, SNDL is also struggling to turn a profit. In recent years, SNDL has tried to focus on selling high-margin medical marijuana products to improve the bottom line. It also created a business segment, where SNDL deploys capital to fund other cannabis operators.

Moreover, SNDL is in the midst of transforming its business on the back of aggressive acquisitions to increase market share and enter other segments, such as the retail distribution of alcohol. Last month, SNDL closed the acquisition of Valens, a cannabis extraction company. The acquisition is expected to create a low-cost, vertically integrated marijuana company that will allow the combined entity to generate $1 billion in annual sales.

These acquisitions are expected to be highly accretive for SNDL, which reported just $56 million in sales in 2021, while its top line soared to almost $500 million in the last four quarters,

SNDL acquired Valens for a deal valued at $138 million — a majority of which was funded via stock. The Canadian cannabis giant now has just over $260 million in cash, which might limit its acquisition-based deals in the near term. Alternatively, if SNDL acquires businesses funded by stock, it can continue to drive sales higher without compromising on its liquidity position.

Even if SNDL ends 2023 with an annual run rate of $1 billion, investors will be worried about the company's ability to grow organically. For instance, in the third quarter (Q3) of 2022, SNDL increased revenue by 1,500% year over year to $230.5 million.

But the top line was powered by SNDL's acquisitions of liquor retailer Alcanna, which contributed around $152 million in sales. Moreover, SNDL owns a majority stake in Nova Cannabis, a marijuana retailer, which contributed to its stellar growth profile in the September quarter.

Additionally, in the last 12 months, SNDL's net losses have stood at $269.7 million, accounting for 55% of total sales. So, for the stock to regain investor confidence, it will have to post consistent profits.

What's next for SNDL stock price?

SNDL stock is trailing the broader markets by a wide margin. Valued at a market cap of $600 million, SNDL is trading at less than one-time forward sales, which is quite cheap. But its weak financials indicate Sundial is a value trap and not an undervalued gem.

In the next 12 months, SNDL will have to streamline its cost structure and lower its expenses. In case its losses continue to rise, the cannabis producer will have to raise equity or debt capital, diluting shareholder wealth or weakening its balance sheet in the process.

Right now, I would avoid buying SNDL stock, as there are far better options to invest in.

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