



Is Tilray Stock a Buy in February 2023?

Description

The [cannabis sector](#) has been under pressure over the last few years due to the delay in legalizing cannabis at the Federal level in the United States. Besides, growing competition and undercutting by unregulated cannabis businesses have severely hurt the financials of cannabis companies, thus dragging their stock prices down. However, the sector has witnessed healthy buying this year. The **Horizons Marijuana Life Sciences Index ETF** has risen by 9.2%.

Tilray Brands ([TSX:TLRY](#)) is trading 17.2% higher this year. Let's see whether the rally can continue by looking at its second-quarter performance and growth prospects.

Tilray's second-quarter performance

Tilray posted [revenue](#) of US\$144.1 million for its second quarter fiscal 2023, representing a 7% decline from the previous year's quarter. The decline in its cannabis and distribution business offset a 56% increase in its beverage alcohol business, dragging the company's top line down. Additionally, the strong U.S. dollar negatively impacted revenue.

Despite the decline in revenue, the company's gross profits increased by 22% to US\$40.1 million amid several cost-cutting initiatives. Its adjusted net losses improved from US\$38.8 million to US\$35.3 million. Meanwhile, when most cannabis companies are struggling to become profitable, Tilray has posted an adjusted EBITDA (earnings before interest, tax, depreciation, and amortization) of \$11.7 million, marking the fifteenth quarter of positive adjusted EBITDA. Overall, the company's financial position looks healthy, with its cash and marketable securities at \$433.5 million as of November 30.

Now, let's look at its growth prospects.

Tilray's growth prospects

The legalization of recreational cannabis at the federal level in the United States and European Union could be a significant growth driver for Tilray, given its substantial presence in these regions. Amid the

recent legalization by Maryland and Missouri, the number of U.S. states that have legalized recreational cannabis has increased to 21 states. Further, around 37 states have legalized cannabis for medical purposes. Amid the market expansion, Allied Market Research expects the global cannabis market to grow at a CAGR (compounded annual growth rate) of 20.1% to reach US\$148.9 billion by 2031.

Tilray, a market leader in the Canadian recreational cannabis market with a market share of 8.3%, is looking at further strengthening its position. It utilizes its proprietary consumer research to understand and meet customers' needs. The acquisition of convertible debt in MedMen, a multi-state operator in the United States, is part of its U.S. expansion. The cannabis retailer will allow Tilray to introduce its products once the federal government legalizes cannabis.

Additionally, Tilray has acquired a strong presence in Germany and Portugal through its subsidiary, CC Pharma. The company's management plans to utilize the infrastructure to expand its footprint across the European Union. Also, the German government is hopeful of legalizing recreational cannabis by 2024, thus offering substantial growth prospects for the company.

Supported by its recent acquisitions, Tilray's beverage-alcohol sales grew by 56% in the November-ending quarter. The diversifying company expects to maintain its growth by acquiring Montauk Brewing Company. So, the company has multiple growth drivers.

Cannabis market growth

I expect the cannabis sector to be volatile in the near-to-medium term due to federal legalization delays and stiff competition from unregulated businesses. However, investors with higher risk tolerances and longer-investment horizons can accumulate TLRY stock to earn superior returns, given its multiple growth drivers and discounted stock price.

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