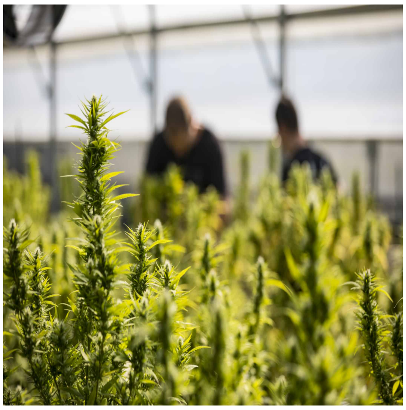

TLRY Stock: Should You Invest Now?

Description

Canadian cannabis stocks gained pace at the start of 2021, shortly after Joe Biden won the presidential election in the United States. Investors were optimistic that the Democrats might decriminalize or even legalize cannabis use at the federal level south of the border.

But why should marijuana laws in the United States impact licensed pot producers in Canada? Well, the United States is the largest marijuana market in the world. While the consumption of cannabis is illegal at the federal level, several U.S. states have legalized the medical and recreational use of marijuana.

Once cannabis is legalized in the country, it will be easier for several Canadian producers to enter the market and grow their top lines at an aggressive pace.

While marijuana was legalized in Canada in October 2018, the slow rollout of retail stores in major provinces resulted in tepid sales growth. Further, these companies are also wrestling with industry-wide issues such as negative profit margins, competition from a thriving black market, overvalued acquisitions, high inventory levels, and much more.

Over the years, Canadian cannabis stocks have trailed the broader markets by a wide margin. For example, shares of **TLRY** (TSX:TLRY) are down 92% from all-time highs, currently valuing the pot stock at a market cap of $2.5 billion. Let's see if this Canadian cannabis stock can deliver outsized gains to long-term investors.

Is TLRY stock a buy or a sell?

Last year, TLRY forecast its sales for 2024 to surpass US$4 billion if cannabis were legalized in the United States. But in the last 12 months, the company reported revenue of US$602.5 million and might end fiscal 2024 with sales of around US$700 million.

In terms of annual sales, Tilray continues to lead the Canadian market and enjoys a market share of 8.3%. However, in the last two years, its market share has contracted by 30%, making investors extremely nervous.

Even though the cannabis market is expanding in Canada, Tilray is forecast to experience a decline of 4% in sales in fiscal 2023 (ending in May).

Similar to most other cannabis stocks on the TSX, Tilray is also reporting consistent losses. Its gross margins have fallen by 24% in fiscal 2021 to 18.5% in fiscal 2022. In this period, the company's operating losses have widened to US$250 million from US$68 million.

Tilray is now focused on lowering its cost base and is aggressively expanding in the alcoholic beverage segment. In the quarter that ended in November, its gross margins rose 37% compared to the year-ago period. Sales from the alcohol beverage business also grew 56% on the back of TLRY's acquisitions.

The Foolish takeaway

TLRY stock is trading at a discount compared to its historical valuation. Valued at less than three times forward sales, TLRY stock is not too expensive right now. But the company remains unprofitable and is burning a truckload of cash.

It ended the second quarter with US$433.5 million in cash, which suggests it will have to turn profitable within the next 12 months. If not, TLRY will be compelled to raise debt or equity capital to support its cash-burn rates.

Raising equity capital dilutes existing shareholder wealth, while debt will need to be serviced with regular interest payments, further pressuring the balance sheet.

Despite TLRY's leadership position in Canada, its weak financials, less-than-impressive gross margins, and high cash-burn rate make it a risky bet in 2023.

CATEGORY

1. Cannabis Stocks
2. Investing

TICKERS GLOBAL

1. TSX:TLRY (Aphria)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News

9. Yahoo CA

PP NOTIFY USER

1. araghunath
2. kduncombe

Category

1. Cannabis Stocks
2. Investing

Date
2025/06/27
Date Created
2023/02/20
Author
araghunath