

Canopy Growth Corp.'s Next Move Could Propel Aphria Inc.

Description

It's not often that competitors aid each other's share prices, but **Canopy Growth Corp.** ([TSX:WEED](#)) may have done so to a well-positioned **Aphria Inc.** (TSXV:APH)

The inclusion of Canopy into the **S&P TSX Composite** index on March 20, 2017 will be a great moment, not only for Canopy, but for the marijuana sector as a whole.

This will drive more institutional investor interest into the marijuana sector as fund managers closely track the index and its sub-indices. These institutional investors will increase demand for cannabis stocks as they try to add marijuana stock holdings that will likely mimic or outperform the broader marijuana sector.

There are not many marijuana investment options available on the TSX. Rather, only Canopy is basking in the TSX sunshine right now. So institutional investors have limited options if their investment policy statements limit them to investing only on TSX-listed stocks.

However, things are definitely going to change on the TSX when Aphria graduates from the TSX Venture exchange to the main TSX in May 2017. Aphria will thus become the second marijuana producer to be listed on the TSX, ahead of close rival **Aurora Cannabis Inc.**

As the inclusion of Canopy into the broader market index starts to generate a more serious and widespread interest for the marijuana sector among institutional money managers, Aphria will be there with its compelling stock to offer.

Aphria could steal the show

Aphria could become the better option for the new wave of institutional investors seeking to add marijuana exposure and better track the newly modified TSX Composite index's performance. The stock is likely to outperform the marijuana sector this year and steal the show from Canopy.

The company has achieved several critical milestones that Canopy faltered on as it rushed to conquer the rapidly growing industry.

Aphria was the first publicly listed marijuana producer to report consecutive positive quarterly operating results and net profits. The company's prowess lies in its superior ability to manage and suppress production and operating costs. These are two areas where Canopy has struggled over the past two years.

Aphria's focus on further lowering production costs could yield a huge payoff in the coming recreational marijuana mass market. If the market becomes more volume focused, as it is likely to be, the company could emerge a star.

Furthermore, institutional investors always closely watch cash flow, which is the lifeblood of an

organization. Aphria has proved that positive free cash flow can still be generated even during a growth and expansion phase of a business, while Canopy has reported negative cash flows.

The market still waits to see how Aphria will implement its one-million-square-foot-production facility project, and if it will still manage to produce at current or lower costs come late 2019, but the vast management experience and methodical, profitable execution exhibited so far by the its leadership has proved that the company has what it takes to be a market leader, given the resources.

It is therefore more likely that institutional investors will fall for Aphria and propel the stock sky high.

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