Why I'm Buying Aphria Inc. Over Canopy Growth Corp.

Description

Ever since Justin Trudeau and the Liberal government brought forth legislation to legalize recreational marijuana in April this year, the market has been flooded with a seemingly endless parade of marijuana IPOs.

Many of these offerings are nothing but a cheap ticket to newfound wealth for those involved in bringing the IPO to market, and they leave little left to be desired for would-be investors.

Canopy Growth Corp. (TSX:WEED) and **Aphria Inc.** (TSX:APH) are the exception to this rule.

Canopy, going by the name "Tweed" at the time, was one of the first marijuana companies to come to market in 2014. It has enjoyed the benefits of the "first-mover advantage," at least as far as investors are concerned, as it is Canada's largest marijuana stock today with a market capitalization of $1.49 billion.

Aphria, meanwhile, boasts the claim of being the only company to produce five consecutive quarters of profits — something that has, to date, been beyond the reach of Canopy, **Aurora Cannabis Inc.**, and **MedReleaf Corp.**

Does size matter most? What about profitability?

Let's find out which company is the better buy.

Which one has the better business model?

The principal activities of Canopy are the production, shipping, and sale of medical marijuana as regulated by the Federal Government.

This is the same for Aphria, which, according to the company's annual report, owns a licence to produce and sell medical marijuana as of November 2014 and was given the right to sell cannabis extracts in August 2016.

As it stands today, these two companies are strictly involved in the production and sale of medical marijuana with no involvement in any way in the sale of marijuana for recreational purposes.

Result: Draw

Performance to date

Over the past 12 months, Canopy has managed $40 million in medical marijuana sales, doubling those of Aphria, which managed just $20 million over that same period.

Yet despite having half the sales, Aphria has converted that revenue into bottom-line profits of $4 million compared to Canopy's net loss of $17 million.

Given that neither producer has made the foray yet into recreational marijuana, their competition in the medical marijuana market is in sharp contrast to one another.

You need to respect past performance, and in this case, Aphria has a track record of superior profitability.

Result: Aphria

Better potential for future growth

Canopy is the much bigger operation today with grow space of 500,000 square feet compared to Aphria, which has about 300,000 square feet of grow space.

Yet on January 16 earlier this year, Aphria announced that its board approved a $137 million expansion project that would see production capacity grow to 1,000,000 square feet.

In addition, Aphria is investing in the infrastructure that will be necessary to manage future harvests which are estimated to be as big as 70,000 kilograms.

While Canopy is the biggest player today, that advantage may not be in place beyond 2018.

Result: Aphria

Conclusion

Management at Canopy has done extremely well to "cash in" on its first-mover advantage and turn that advantage into profits for shareholders.

Yet I'm going with Aphria as my preferred marijuana stock owing to the company's existing medical marijuana licence, a solid track record of profitability, and timely — not to mention, ambitious — plans for expansion just as legalized recreational marijuana is expected to be rolled out.

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jphillips