

These 2 Companies Are the Only Marijuana Companies Investors Should Consider

Description

The budding marijuana industry in Canada is set to explode, according to a number of key industry players banking on a wave of increased consumption from groups that have otherwise steered clear of the green commodity. With only a few large cannabis producers jockeying for position in a bid to control the largest piece of what may turn out to be a very big pie, the Canadian marijuana market appears to be shaping up as a quasi-horse race, with a podium of winners and a number of companies potentially on the outside looking in.

To avoid betting on the wrong horse (or horses), I've pared down the list of companies that I believe will outperform their peers to two firms: **Aphria Inc.** (TSX:APH) and **Aurora Cannabis Inc.** ([TSX:ACB](#)).

While the correlation among most marijuana producers is quite high (stocks tend to move in a similar direction over time), it is also true that companies have begun to diverge as investors stake their claims to the select few companies they believe will outperform in the long run. I suggest investors interested in considering Aphria or Aurora use a long-short strategy to isolate these firms from competitors that may not fare so well in the long term.

By shorting the company an investor believes will underperform and taking a long position on the company an investor wishes to bet on, an investor has limited their downside to how the companies perform relative to each other, rather than relative to the market. Thus, the investor accepts the idiosyncratic risk relevant to the desired firm, while reducing their exposure to market or systematic risk.

Aphria Inc.

There are a couple of reasons I am a fan of Aphria, and both have to do with the focus placed on profitability from the company's management team. In an industry where everyone seems to be in a race to produce the most (and, by the way, Aphria has some pretty impressive production numbers), Aphria has done a very good job of producing cannabis at a profit over a large enough period that I am comfortable with how this company is choosing to grow.

Aphria is Canada's largest greenhouse producer of cannabis, and it has reduced its production costs to industry-leading levels. The ability of Aphria to churn out long-term profits appears to be without question, making this company a fundamental investor's dream as far as cannabis concerns go.

Aurora Cannabis Inc.

Aurora is somewhat of a fringe company and has not seen as much publicity of late compared to its more outspoken peers. That said, the Aurora Sky facility currently under production gives Aurora a potential leg up on the competition in the ability of the firm to outproduce nearly every company on the market with a high-quality product that may turn out to be the drug of choice for cannabis users across the country.

Since arriving on the TSX, Aurora has produced a -11% return for investors, a fact which has not enamoured many investors and has resulted in this company largely being overlooked, in my opinion. What I see with Aurora is a long-term value play, and should prices drop even more, it may make sense to nibble away at this name for an investor keen in buying into the long-term story which is the cannabis industry.

Stay Foolish, my friends.

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