

Comparing MedReleaf Corp to Aurora Cannabis Inc

Description

With volatility finally subsiding in the marijuana industry, companies like **MedReleaf Corp** (TSX:LEAF) and **Aurora Cannabis Inc** ([TSX:ACB](#)) have now established a clear trading range. And, in the case of MedReleaf Corp, the company has successfully delivered its first quarterly results as a publicly traded company.

Reading the green leaves

In order to determine which of the two companies will make the best investment, it is critical to understand where each company is coming from.

MedReleaf Corp is the newer of the two companies which has recently hit the public market and is seemingly the more attractive investment (at least on the surface). The challenge, however, is getting investors to accept this name as a major player in the space. With a market capitalization of \$725 million, the company is far from a start up. Compare that to Aurora Cannabis Inc, which has a market capitalization of \$890 million.

When considering which of the two competitors will be the better long-term investment, the first few lines of the income statement are sometimes the best to evaluate.

Digging into the financials

In an industry which sells a commodity, margins can sometimes say a lot about a company's ability to negotiate, or reach economies of scale. In the most recent quarter, the gross margin for Aurora Cannabis Inc (calculated as gross profit divided by revenues) is 60.6%, which is very light in comparison to MedReleaf Corp's 72%. Advantage: MedReleaf Corp.

For a company clearly returning higher gross margins, it is important to understand why. The main difference between these two companies is that MedReleaf Corp is an Ontario-based, ISO certified company. Whereas Aurora Cannabis Inc produces the product in western Canada and does not adhere to the higher ISO certification standards.

As each company is still in the process of increasing capacity to meet the upcoming higher demand (legalization is scheduled for July 1st, 2018), investors may also learn a significant amount more information by moving beyond the income statement and into the statement of cash flows.

Recency bias

When considering the most recent quarter for each company, there is a clear winner. Cash flows from operations (CFO) for Aurora Cannabis Inc was negative \$9 million whereas the same metric for MedReleaf Corp was positive \$395,000. Clearly one of the two companies has successfully increased the amount of cash in the bank instead of burning through \$9 million to simply run the company. As a reminder, CFO is the cash used in the day-to-day operations of the company.

In the hopes of being able to anticipate future revenue growth, the second section of the statement of cash flows may offer a few clues. In the cash flow from investing (CFI) section, investors will learn that Aurora Cannabis invested almost \$13 million into long term investments (which will increase the capacity to produce the product), whereas the amount for MedReleaf Corp is only \$4.8 million. Clearly one company is increasing future earnings potential much more than the other.

Foolish Bottom Line

While both companies offer investors something a little different, it is important to have proper expectations for each investment. Although shares of Aurora Cannabis Inc may offer higher revenues in the future, barring a bottom-line profit, the increase in revenues may not translate to value for shareholders.

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ryangoldsman

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