Cannabis Investors: This Pot Stock Might Be a Better Buy Than Canopy Growth Corp.

Description

Canopy Growth Corp. (TSX:WEED) and **Aurora Cannabis Inc.** (TSX:ACB) have seen their stocks soar this year with both share prices doubling year to date. However, there's one stock that cannabis investors shouldn't ignore. This company could have even more potential upside given its efficient cost structure and ability to turn out profits — something that many pot stocks still struggle to do.

Aphria Inc. (TSX:APH) has had a good year with returns of 63% year to date, although the stock is still well behind Canopy and Aurora in terms of performance.

However, in four of the past five quarters, Aphria has turned a profit, while Aurora has been in the red for three of the last five, and Canopy has been unprofitable for three straight periods. Aphria's low-cost model will also enable it to more easily handle any rising costs that come as a result of increasing red tape in the industry.

Aphria has seen strong growth as well, with its latest quarter showing sales being up 40% year over year. What's important to note is that although other growers like Canopy have shown exceptional growth, their financials have been plagued by rising costs that have made turning a profit a big challenge.

The company has strong leadership at the top

There are many reasons that make Aphria a good buy, and that set the stock apart from others in the industry, including its leadership. Vic Neufeld is the CEO behind Aphria, and for more than two decades he led **Jamieson Wellness Inc.** and helped it grow to become a household name in vitamins around the world.

Leadership is important and cannot be understated. Investors need to look no further than the troubled **Home Capital Group Inc.** (TSX:HCG) as an example as to what can happen when there are poor management decisions from the top. The company has made significant changes to its senior management just to try and calm concerns that potential investors may have going forward.

Growth potential means cost control will be even more important

As the cannabis industry continues to grow and take off, controlling costs will be even more important to ensure that a company is not overrun with costs. The danger for young cannabis companies is getting knee deep in debt, while trying to finance operations to meet growing demand.

Problems with debt cannot be understated, and having too much on the books could mean a company's future opportunities will be limited. If Aphria can continue to grow and turn a profit, then it will be in a much stronger position than its competition.

Why investors should consider Aphria

It may be tempting to jump aboard high-flying stocks like Canopy and Aurora, but with the amount their respective share prices have already increased, there might not be a lot of potential upside left for new investors. Those stocks have been fueled largely by hype and sales growth rather than profits and strong financials.

Although right now, investors are willing to pay a premium for hype and future opportunities, that may not be the case later on. While Canopy and Aurora are trying to expand their reach and market share, Aphria is also growing its top line and trying to build a strong and sustainable business model.

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Date
2025/08/21
Date Created
2017/12/01

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