



Which Is the Better Growth Play: Aphria Inc. or Aurora Cannabis Inc.?

Description

C

With the overall cannabis market recently seeing a reduction in uncertainty related to the way cannabis is expected to be rolled out across the country's provinces and territories, investors have begun to pile into the country's largest cannabis producers in a bid to choose the company that will eventually come out on top.

With **Canopy Growth Corp.** ([TSX:WEED](#)) widely considered to be the frontrunner in becoming Canada's premier cannabis firm, its competitors have recently begun to catch up in a meaningful way. Fellow Fool contributor Joey Frenette has discussed a [potential trend](#) of Canopy investors jumping ship to competitors **Aphria Inc.** (TSX:APH) or **Aurora Cannabis Inc.** ([TSX:ACB](#)) in a bid to achieve outsized returns. While I tend to agree that smart money will begin diversifying long-term investments in the cannabis sector across multiple publicly traded firms, I also believe that each of Canada's large cannabis producers have different fundamentals that investors need to consider in order to choose which cannabis company fits their investment criteria, if at all.

While I personally remain on the sidelines with respect to the Canadian cannabis sector in the belief that we are currently in what will turn out to be a massive [bubble](#), I agree that some cannabis companies are fundamentally better than others, which is what really matters to me.

With most of the valuation discussion appearing to focus on production capacity, a fact I've [touched on](#) before, the current valuation multiples displayed by most cannabis producers have approached astronomical levels. My recent article highlighting just how [crazy valuations](#) are has not deterred further stock price growth, as investors continue to focus on production capacity set to come online and the impending legalization set to happen in just a few months.

It is certainly true that both Aphria and Aurora are in a race for market share. However, I prefer to focus on operating and profit margins for companies in the early stages of development as a key indicator of long-term cash flow creation ability. In that regard, Aphria emerges as the clear winner, with operating and profit margins of 83% and 12%, respectively, compared to -16% and -33% for Aurora over the past

12 months.

Aphria has also produced very decent returns for shareholders of late, providing investors with a Return on Equity (ROE) of 10.1% and a Return on Assets (ROA) of 0.8% compared to Aurora's ROE of -2.7% and ROA of -2.4%.

Investors who are seeking a company with the ability to create durable competitive advantage relating to operating leverage should consider Aphria over Aurora currently.

Stay Foolish, my friends.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ACB (Aurora Cannabis)
2. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date

2025/08/20

Date Created

2018/01/10

Author

chrismacdonald

default watermark

default watermark