Which Marijuana Stock Is the Better Buy: Aphria Inc. or Canopy Growth Corp.?

Description

Marijuana stocks are off to a bumpy ride in 2018 as each day brings swings so big they remind me of cryptocurrencies.

Amid this extreme volatility, let's try to analyse which of the top two producers, **Aphria Inc.** (TSXV:APH) and **Canopy Growth Corp.** (TSX:WEED), is the better buy.

Aphria

Shares of Leamington, Ontario-based Aphria plunged about 30% in the period to January 15. But its stock bounced back on the same day, surging 20% after the producer announced a deal to buy **Broken Coast Cannabis Inc.**, a cannabis producer on Vancouver Island, in a transaction it valued at $230-million in cash and stock.

Under the agreement, Aphria will pay up to $10-million in cash, with the remainder in shares based on a deemed price of $15.09 per share.

"Adding one of Canada's most sought-after premium brands represents a major triumph for Aphria and our shareholders and firmly establishes our position as a Canadian leader in premium indoor cannabis production," said Vic Neufeld, President and Chief Executive Officer of Aphria.

Broken Coast operates an indoor cannabis production facility on Vancouver Island. As part of the transaction, Aphria has approved a further expansion project that is expected to increase facility's annual capacity to 10,500 kilograms per year.

Aphria grows its marijuana in greenhouses in southwestern Ontario. Before the Broken Coast deal, Aphria agreed to supply Shoppers Drug Mart medical cannabis products through online channels.

Canopy Growth

Canada's largest producer, Canopy Growth, had a similar start to the year. After doubling in value in a month, its shares were down 8% during the past five days. Trading at $36.50 at the time of writing, the company has a market cap of about $6 billion.

Canopy is aiming to expand its facilities, representing 3.2-million-square-foot indoor and greenhouse production capacity. Through acquisitions and partnership, Canopy has positioned itself to ramp up its sales once the market is opened.

It bought Mettrum Health in January 2017 and sold about 10% of its stake to **Constellation Brands Inc.**, the third-largest beer producer in the U.S., which plans to sell cannabis-infused beverages in markets that allow the recreational use of marijuana.

The company has also established partnerships with leading names in Canada and abroad, with interests and operations spanning seven countries and four continents.

During its latest quarter, its sales more than doubled, but were not enough to produce a profit. The loss over the first six months of the 2018 fiscal year was $10.8-million, or $0.07 a share.

Which stock is a better buy?

Many companies are trying to position themselves to grab the largest share of the pie, before the potential legalization of recreational pot in Canada this summer; however, no one can predict with any certainty which ones will survive and how much demand exists.

In short, many unresolved issues could affect the future of this nascent, fragmented industry. It reminds me of the dot.com boom and bust in the 1990s.

Amid this uncertainty, the better option for investors is sticking with the big names, such as Aphria and Canopy. At this point, I'm not recommending that new investors jump on this bandwagon. Instead, they should let the dust settle and take a position when the regulatory environment has some visibility.

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