Comparing the Big 3 Cannabis Stocks

Description

In the cannabis industry, Canada punches well above its weight. Two of the three largest public cannabis companies are based in Canada, as are several others in the top 10. It's no surprise. Canada was an early pioneer of cannabis legalization. Medical marijuana became legal with a prescription in 2001, while the Chretien government attempted to decriminalize small possession in 2003. The bid failed, but with medical marijuana solidly in place, the stage was set for the cannabis industry's rise to prominence.

Today, there are three major cannabis companies on the TSX for investors to choose from. In this article I will give a brief overview each of them, noting relative strengths and weaknesses and giving my personal pick for the best of the crop. I'll start with one that most will be familiar with.

Canopy Growth Corp. (TSX:WEED)(NYSE:CGC)

Canopy is a stock that needs no introduction. Between a massive recent rally and a $5 billion investment from **Constellation Brands Inc.** (NYSE:STZ), it's hard not to hear about this one. And the hype is at least partially justified. Canopy is growing its revenue at a blistering pace, with 63% year-over-year growth in the most recent quarter. However, the company's losses are on the rise as well: in the most recent quarter it posted a net loss of $90.9 million, vs. revenue of $25.9 million. Though these figures were in line with analyst expectations, they are concerning. Management has stated it plans to become profitable by the end of the calendar year, though it remains to be seen whether legalization will make that happen.

Aurora Cannabis Inc. (TSX:ACB)

Aurora is the second largest Canadian cannabis company after Canopy. Its revenue growth is even faster than Canopy, with 211% year-over-year growth in Q3 fiscal 2018. The company earned $16.1 million for the quarter, with a $20.8 million net loss. This means that Aurora's net loss is smaller than Canopy's–both in absolute terms and compared to revenue.

Aphria Inc. (TSX:APH)

Aphria is the smallest of Canada's Big Three cannabis stocks, but it has some things to recommend it. Like Canopy and Aurora, it has incurred operating losses in recent quarters. However, unlike its two closest competitors, it has had a positive *net income* in three of the four recent fiscal years. It should be noted that Aphria's positive net income came from gains realized on its investment portfolio, not on operations.

It's clear that Canada's biggest cannabis stocks have a lot in common. All of them are seeing rapid revenue growth while suffering net losses–Aphria being the one exception. It might sound like I'm leaning toward Aphria as my top cannabis pick, but actually, I'm more inclined to go with Canopy.

Why? My reason for favouring it has less to do with financials and more to do with market position. As a result of its growing international infrastructure and partnership with Constellation Brands, Canopy has the most obvious path to sustained growth in the years ahead. All cannabis stocks are in the same precarious earnings position for the time being. But Canopy has more resources to develop infrastructure, brands and R&D in the years ahead. In the long run I think this will bring sales up compared to operating costs.

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2. NYSE:STZ (Constellation Brands Inc.)
3. TSX:ACB (Aurora Cannabis)
4. TSX:WEED (Canopy Growth)

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