Here's Why Canopy Growth Corp. (TSX:WEED) and Aurora Cannabis Inc. (TSX:ACB) Stock Are Still Worth Buying in September

Description

Cannabis stocks have taken off in the month of August and contributed to a solid late summer rally on the TSX. The two largest cannabis producers in Canada have predictably performed well. Should investors have faith that this run will extend into the fall and beyond?

In July and early August, I'd discussed the drop in cannabis stock prices and recommended that investors prepare to weather volatility and look for entry points, as the long-term potential was too enticing to pass up. Interestingly, the spark that would light the run would come from a U.S.-based investor.

Constellation Brands, a New York-based alcohol producer and marketer, increased its stake in **Canopy Growth** (TSX:WEED)(NYSE:CGC) by $5 billion in mid-August. The move has been enough to cause a 78% month-over-month surge in the stock as of close on August 27. Canopy CEO Bruce Linton described the investment as "rocket fuel" and projected that it would power the company's international expansion for years to come. The company released its fiscal 2019 first-quarter results on August 14.

Revenues in fiscal 2019 Q1 reached $25.9 million, which was up 63% from the prior year. This was also a 14% increase from fiscal 2018 Q4. Average selling price per gram was reported at $8.94 compared to $7.96 in the same quarter last year. Canopy also posted its inventory of 19,721 kilograms of dry cannabis, 14,895 litres of cannabis oils and 1,055 kilograms of softgel capsules at the quarter's end.

Canopy has reported 36% of the total supply committed to date to the provinces and territories in Canada. Its inventory buildup and early strategy has succeeded in establishing the most secure footprint in the fledgling recreational market so far. Of course, the race is far from over.

Aurora Cannabis (TSX:ACB)

Aurora Cannabis has emerged as Canopy's chief rival in 2018. Its stock has climbed 25% over the past month, dwarfed by the incredible performance Canopy has put together. Aurora is expected to release its fiscal 2018 fourth-quarter results in September.

Canopy is without question the most “roll-out ready” of the top producers. However, the dilution at Aurora due to its aggressive acquisition strategy coupled with its production capacity makes it a stock to watch ahead of legalization. Shares are still in negative territory for 2018 and the stock is priced at a cheap $9.25 as of close on August 24.

Aurora’s retail footprint is the strongest in western Canada, but there are signs that it plans to take advantage of Ontario’s foray into private retail. The company increased its stake in alcohol and cannabis retailer **Alcanna Inc.** to 25% in the month of May. Reports indicate that Alcanna has already made inquiries in order to expand in the gigantic Ontario market. Wholesale retail will not begin in Ontario until April 2019 at the earliest.

Should investors bet on these two in September?

Canopy could easily have room to run ahead of recreational legalization, but its valuation is scary high as its stock has reached an all-time high this month. There is little question that the company is also the most prepared for the legalization roll out. Aurora is looking like the better value add ahead of its next earnings release in September. In any case, both are good bets to seize upon the renewed momentum in the cannabis market.

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