Canopy Growth Corp (TSX:WEED) (USA) vs. Aurora Cannabis Inc (TSX:ACB): Which Is the Better Buy Ahead of Legalization?

Description

With legalization almost upon us, everybody is wondering which cannabis stock is best to invest in. And judging by market cap, **Canopy Growth Corp** (TSX:WEED)(NYSE:CGC) and **Aurora Cannabis Inc** (TSX:ACB) seem to be the main TSX-listed contenders. Both have market caps over $10 billion. Both are experiencing surging revenue growth. And if Aurora goes ahead with recently announced plans, both will be dual-listed in the U.S. and Canada.

What's certain is that on October 17, both of these companies' fortunes will be forever changed. What's not as certain is which of the two is the better investment. To understand which will win out in the end, it helps to start by looking at revenue growth.

Revenue growth

Cannabis is a new industry where positive bottom-line earnings are rare, so revenue growth is the main metric investors look at. While some cannabis companies occasionally report positive quarterly earnings, none of them have a consistent long term track record of doing so.

Broadly, Aurora has Canopy beat on revenue growth. In Q4, Aurora's revenue surged 223%. By contrast, Canopy's revenue grew by 63% in its most recent quarter. It should be noted, however, that Aurora's latest income statement was more recent that Canopy's.

It's possible that Canopy could post a massive blowout in its next income statement, which will most likely include new recreational cannabis sales.

Earnings

Both Canopy and Aurora have a track record of negative net income, mainly because both are investing heavily in future growth. However, in Q4, Aurora turned it around in a big way, posting bottom line earnings of $79 million.

It should be noted, however, that most of these earnings came from unrealized returns on investments: Aurora's actual revenue in Q4 was only $19 million.

Canopy has thus far failed to report positive net income. However, as mentioned above, Canopy may see a massive revenue increase itself when it posts a future income statement factoring in new recreational sales.

Bottom line

Canopy and Aurora are both strong companies and established market leaders in the cannabis industry. Both are experiencing significant revenue growth. And both are poised to grow even further with new recreational cannabis supply deals.

However, between the two, it appears that Aurora is the better pick–at least in the short term. With faster-growing revenue and more profitable operations, it's simply the stronger company (in terms of fundamental analysis) at the moment.

Investors should, however, be aware that Aurora's latest income statement was more recent than Canopy's.

Assuming that recreational supply contracts are what's responsible for the surge in Aurora's revenue, then we may expect similar results from Canopy when they report their Q2 earnings on November 19.

All in all, we can expect plenty of exciting news from both of these companies in the months ahead.

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