Canopy Growth Corp (TSX:WEED) vs. Tilray Inc (NASDAQ:TLRY): Which Is the True Cannabis King?

Description

Call it the Cola Wars 2.0: cannabis companies are scrambling to eat up market share ahead of pot legalization, with a variety of products ranging from cannabis flower to CBD oil to cannabis-infused beverages. The two main contenders? **Canopy Growth Corp** (TSX:WEED)(NYSE:CGC) and **Tilray Inc** (NASDAQ:TLRY). These are the cannabis companies that have eked out the largest market capitalizations in the entire cannabis space.

While it's possible that both Canopy and Tilray will prosper in the years ahead, most investors want to know which one is the best pick. We can start by looking at revenue.

Revenue and growth

Broadly, Canopy has the larger revenues of the two companies, at $79 million in the most recent year compared to Tilray's $20 million. However, Tilray has got Canopy beat on revenue growth.

In the most recent quarter, Tilray grew revenue at 95% year-over-year compared to Canopy's 61.5%. It should also be noted that Tilray is a much younger company than Canopy, which means it has more room to grow and is not as locked in to existing commitments.

Expansion strategy

Both Canopy and Tilray are investing aggressively in expansion. However, their strategies differ somewhat. Canopy is investing in foreign market share, infrastructure, and new product development. Tilray, on the other hand, is mainly focused on R&D with the aim of developing new cannabis strains and products.

Both Canopy and Tilray are focused on increasing the size of their facilities.

One important difference between Tilray and Canopy is how each its financing its growth. Canopy is mainly selling equity, while Tilray is financing by debt. Canopy's financing approach leaves a healthier balance sheet, but dilutes shareholder equity. Tilray's approach avoids dilution, but increases balance sheet liabilities and creates recurring costs (in the form of interest).

Does Tilray's valuation really make sense?

Valuation has been a particularly contentious point when it comes to cannabis companies. As most of these companies do not yet have positive earnings, many common valuation ratios are not applicable.

This applies to both Canopy and Tilray. However, between the two of them, Tilray has the frothier price/sales ratio, which currently sits at a mind-boggling 464.

By comparison, Canopy has a price/sales ratio of about 160. Based on these numbers, it doesn't appear justifiable for Tilray to have a market cap around the same as Canopy's.

It should be noted that Tilray's net losses are much smaller than Canopy's. However, it's more common to value growth-stage companies like these with metrics like revenue, growth and price/sales than with earnings.

Should Tilray turn it around and start posting positive earnings, it may be a stronger play than Canopy. For now, though, Canopy's larger market share, higher revenue and more sober valuation make it a better pick in my view.

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