



Which Pot Stock Is a Better Buy: Aurora Cannabis Inc. (TSX:ACB) or Canopy Growth Corp. (TSX:WEED)?

Description

On October 17, Canada became the second country in the world after Uruguay to legalize recreational cannabis. The opening of this new market and the arrival of new customers should have a positive impact on the results of cannabis producers.

In the meantime, marijuana stocks saw a big sell-off following legalization. There was a kind of euphoria in the days preceding the legalization, which led to a bubble.

Aurora Cannabis Inc. ([TSX:ACB](#))(NYSE:ACB) and **Canopy Growth Corp.** ([TSX:WEED](#))(NYSE:CGC), two big players in the market, have been hammered down despite having strong growth perspectives.

Let's look at the latest quarter of these two pot companies to see if there is reason for concern.

Aurora Cannabis

Aurora Cannabis reported a big increase in its revenue for the [first quarter](#) of fiscal 2019. Indeed, the cannabis producer reported revenue of \$29.7 million, more than three times the \$8.2 million earned in the same quarter a year earlier.

Aurora posted a net income of \$104.2 million, up from \$3.6 million a year ago thanks to a non-cash unrealized gain on derivatives and marketable securities.

The average net selling price was \$9.19 per gram in the most recent quarter, up 12% from last year, due to increased sales of cannabis extracts. Aurora sold 2,676 kilograms of cannabis in the quarter, up 201% from this time last year.

Quarterly revenue included \$600,000 from first deliveries to the provinces in the last days of September in preparation for the legalization.

Sales and marketing expenses nearly doubled to \$29.4 million from \$14.8 million in the prior quarter.

While these results don't include sales of recreational cannabis, the initial deployment has been a success according to CEO Terry Booth. The company has made significant progress in increasing its production capacity, including the receipt of various sale and production licenses.

However, the launch was fraught with problems, including product shortages in many markets as demand outstripped supply.

Booth harshly criticized the Canadian provincial governments of Ontario and British Columbia for the poor rollout of retail models for recreational cannabis. He believes that only the provinces of Alberta and Saskatchewan got it right.

Regarding the stock, the marijuana producer has a P/B of 1.8 and a P/S of 65.5.

Aurora shares are down almost 40% in the last month.

Canopy Growth

Canopy Growth reported a larger-than-expected loss for its most [recent quarter](#), as well as a slowdown in revenue, as operating expenses jumped in preparation for the legalization of recreational marijuana in Canada.

Revenue totaled \$23.3 million, up 32% from \$17.6 million in the second quarter of the previous year. However, revenue was \$25.9 million in the previous quarter.

The slowdown in revenue was due to some problems in the delivery of medicinal cannabis in Germany and to the hubbub surrounding the legalization of recreational cannabis on October 17.

Results for the most recent quarter included \$700,000 in revenue related to deliveries to conduct supply chain testing for legalization.

During the quarter, Canopy sold the equivalent of 2,197 kilograms of cannabis at an average selling price of \$9.87 per gram. In comparison, it had sold the equivalent of 2,020 kilograms at an average price of \$7.99 per gram a year earlier.

Canopy posted a loss of \$330.6 million, or \$1.52 per share, compared to a loss of \$1.6 million, or \$0.01 per share, for the same period a year earlier. Analysts expected a loss of \$0.12 per share.

The cannabis producer's operating expenses reached \$180.6 million during the quarter, nearly six times the \$27.7 million spent in the same period a year earlier.

Canopy spent \$39 million on sales and marketing last month, up significantly from the \$7.6 million in October 2017. However, the company expects these expenses to decrease due to stricter regulations following the legalization.

The company remains on track to meet its commitments on an annualized basis and is working with its provincial and territorial partners to address supply shortages across the country.

The marijuana producer has a P/B of 8.7 and a P/S of 101.5.

Canopy shares lost about 30% of their value in the last month.

Should you buy Aurora or Canopy on the dip?

While I think both Aurora and Canopy are good buys on the dip, I think that Aurora is a better buy. Aurora is more profitable and is growing faster than Canopy, and its stock is cheaper.

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2. NASDAQ:CGC (Canopy Growth)
3. TSX:ACB (Aurora Cannabis)
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Author

sbchateauneuf

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