Canopy Growth Corp (TSX:WEED): Should Investors Adjust Revenue Expectation As Aurora Cannabis Inc (TSX:ACB) Issues a Weaker Guidance?

Description

Leading cannabis firm **Aurora Cannabis Inc.** (TSX:ACB)(NYSE:ACB) released a market update on Tuesday, January 8, in which it issued a revenue guidance for $50-55 million for the just ended fiscal Q2 2019 that closed on December 31, 2018.

Analysts were estimating quarterly revenue of around $67 million for the quarter, and the stock closed just over 4% weaker during that day's trade. The big question for investors is that, if one of the most capable players in the nascent industry could miss by an 18% margin, should growth expectations be adjusted lower for all other incumbent players, especially industry giant **Canopy Growth Corp** (TSX:WEED)(NYSE:CGC)?

The answer may first require a quick review of Aurora's position.

Revenue of $55 million would mean additional sales of $19 million or a 54% sequential growth from pro-forma Q1 revenue of $35.75 million achieved by from its consolidated entities during the previous quarter just before legalization, and would imply an 85% sequential growth from the $29.67 million reported for September 2018 quarter.

Mind you, the company has multiple revenue sources from previous acquisitions that include patient counselling services, construction services at ALPS, cannabis cultivation accessories, product testing services at Anandia Labs as well as hemp product sales at **Hempco Food and Fiber Inc**. and the two recent Europe-based acquisitions of Agropro and Bolera.

Assuming static sales from these other revenue lines and steady Europe export sales during the last quarter, the sequential growth over pure cannabis sales would be a 100% over the $24.60 million realized in the September 2018 quarter reading, which would still be an impressive feat given the company's inventory constraints.

Inventory constraints

The company didn't have much inventory build heading into the adult-use market, and it couldn't even attempt to report on actual grams of dried cannabis and litres of cannabis oil in its inventory prior to October 17, other than just commenting that its inventory was fresher. Reported production during the September quarter was just for 4,996 kilograms against 2,676 kilograms sold.

Optimistic inventory estimates prior to legal sales fell under the 10,000 kilogram range, but given the preliminary revenue guidance provided, that range might have been way too high. At a projected wholesale price of $5.50 a gram of recreational product to the provinces, the company needed to sell under 3,500 kilograms of dried adult-use cannabis to achieve a $55 million revenue figure (keeping prior quarter pro-forma revenue constant.)

In contrast, leading competitor Canopy Growth was so proud to consistently report on inventory, boasting 31,214 kilograms of dried cannabis, 21,499 litres of cannabis oils and 1,497 kilograms of soft gel capsules at quarter September 30, 2018 after producing 15,127 kilograms of marijuana during the quarter, three times its closest rival's achievement.

Should Canopy Growth revenue estimates be impacted too?

Given the reported acute product shortages on the Canadian market during the very first few weeks of recreational sales, it isn't be too much to expect a marijuana grower to offload all its product into a "hungry" new market.

Unlike its closest competitor, which wouldn't release the actual number of kilograms of product in its storage vaults, Canopy Growth was more forthcoming, transparent, and proud to report the hard numbers concerning inventory and the company was shipping product at more frequently in November last year.

I bet the biggest cannabis stock will trounce its closest rival in top-line growth in the next quarterly results instalments expected in February, and I wouldn't rush to revise growth expectations without tangible evidence of either a general product price weakness or weaker demand growth. I suspect that Aurora's revenue miss has something to do with a weaker inventory position during the last quarter and this issue may not apply to Canopy.

Investor takeaway

High growth expectations are built into marijuana stock valuations, and any revenue misses may not be entertained by the investing public.

Aurora Cannabis has provided a revenue guidance that falls below expectations, but the company could also have set the market up for a surprise by dampening current expectations before a crucial earnings report in February. The weak guidance may not warrant a downward revision on its arc rival's expected execution success.

Aphria Inc's earnings report on Friday could provide a better insight into the early marijuana market.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:ACB (Aurora Cannabis)
2. NASDAQ:CGC (Canopy Growth)
3. TSX:ACB (Aurora Cannabis)
4. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/08/07
Date Created
2019/01/10
Author
brianparadza