Aurora Cannabis Inc (TSX:ACB) vs Tilray Inc (NASDAQ:TLRY): Which Is the Better Buy?

Description

In a recent article, Fool.com contributor Keith Speights opined that **Tilray Inc** (NASDAQ:TLRY) had schooled **Aurora Cannabis Inc** (TSX:ACB)(NYSE:ACB) in the art of the deal. The article, which explored Tilray's Natura Naturals acquisition in depth, made the case that the deal delivered a ton of concrete value for the buyer in the form of a 662,000 square foot greenhouse, whereas Aurora's Whistler Medical Marijuana deal lacked such obvious benefits.

The article couldn't have come at a better time. In Aurora's most recent quarter, revenue shot up a blistering 260% to $29 million, making it the largest cannabis company by sales. Should the company keep up the pace, it may hold that distinction for a full year in 2019. But if Tilray can get all 662,000 square feet of its new production capacity operational, it may eventually eclipse the rising underdog of the marijuana industry. To determine whether that will happen, we first need to look at the two deals that kicked off this article side by side.

Deals analysed

As Speights points out, the purpose of Tilray's Natura Naturals acquisition was to get production capacity–a lot of it. And that it did: a 662,000 square foot warehouse, of which 155,000 feet are already licensed and ready to pump out cannabis. For all this, Tilray will pay $70 million CAD, making it one of the smaller cannabis deals in the past 12 months. And yet the actual value puts it among the most valuable: 662,000 square feet is approximately one quarter the production capacity **Canopy Growth Corp** has, and Canopy is the largest cannabis company by market cap.

By contrast, Aurora's Whistler deal did not deliver such massive production space. Although Aurora touted Whistler's 5000 kilogram output in its press release, they paid more for that than Tilray did for its 662,000 square feet, which can produce a lot more. That could indicate that Aurora is overpaying, but not necessarily. One thing Whistler does have is positive cash flow, which it achieved in 2015 and has been holding on to ever since. This alone makes Whistler a prize gem in the cannabis industry, where revenue growth is hot, but rising expenses are downright scalding.

Growth and earnings

In terms of earnings growth, Aurora has Tilray beaten. In its most recent quarter it earned $29 million in revenue, $8 million in gross profit and $104 million in net income. The revenue figure was up 260% from the same quarter a year before. By contrast, Tilray earned $12.9 million in its most recent quarter, up from 85% a year ago. Tilray's net income was in the red to the tune of $18 million, so Aurora wins on both revenue and earnings. However, Aurora's positive net income was mostly due to gains on securities; if we look strictly at operating profits/losses, it lost more than Tilray did.

Bottom line

Both Aurora and Tilray are fast-growing marijuana companies that are betting big on acquisitions. In Tilray's case, production space seems to be the order of the day, while Aurora is mainly looking for brand value and cash flow. These companies' respective strategies make sense: Tilray has less production capacity, so it acquires to buy more of it; Aurora has huge operating losses, so it acquires a profitable company. In my opinion, Aurora is slightly better because it's cheaper relative to sales, but that could easily change.

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