Better Buy After Earnings: Canopy Growth Corp (TSX:WEED) Stock or Aurora Cannabis (TSX:ACB) stock?

Description

It was a big week for the cannabis industry, as two of the industry's largest companies reported quarterly earnings. After a dismal fall quarter in which the majority of pot stocks missed estimates, investors were looking to see if the ship had course corrected.

Bellwethers **Canopy** (TSX:WEED)(NYSE:CGC) and **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) both reported earnings last week. The good news? It appears that some of the issues that plagued the roll-out of recreational cannabis are starting to subside. Which is a better buy after earnings? Let's take a look

Revenue topped estimates

Canopy reported revenue of $83 million, topping estimates by $1.21 million, or 1.5%. This represented massive growth of 283% over the fourth quarter of 2017 and 255% sequentially. In the quarter it sold 10,102 kgs of cannabis — up 334% from the fourth quarter of 2017.

It wasn't all good news. The company posted a net loss of $0.38 per share — $0.13 more than expected. Likewise, despite record cannabis sales, analysts were expecting the company to sell 12,782 kgs of cannabis in the quarter. Another warning sign emerged. South of the border, cannabis prices have been falling, and it looks like the trend has made its way to Canada.

Canopy's average selling price dropped 12% to $7.33 per gram. Aurora was also not immune, with its average selling price for dried cannabis and extracts dropping by 28% and 18% per gram.

Aurora also posted blowout sales, which increased 363% year over year to $54.178, topping estimates by 4.52%. Much like Canopy, it posted a greater-than-expected loss of $0.25 per share, missing by $0.20. It sold 6,999 kgs of marijuana in the quarter — below expectations for sales of about 7,500 kgs.

Unlike Canopy, Aurora is more transparent in the sense that it releases costs per gram sold ($1.92). This represented a 33% jump in part as a result of the ramp up of its Aurora Sky facility.

Winner: This is a tough one to call, as they each had similar performance. As such, I consider it a tie.

Company strategy

Interestingly, the quarter provided some clarity on the difference in company strategies. Aurora considers itself first and foremost a medical marijuana company. Medical marijuana accounted for 55% of revenue in the fourth quarter.

Canopy appears focused on the recreational market. Medical cannabis accounted for only 22.6% of sales. In fact, sales in the category dropped by 18% year over year in Canada.

Aurora claimed to have captured approximately 20% of all recreational consumer sales across the country with its $21.6 million in revenue. This would imply a second-quarter recreational market valued at $108 million. Based on this, Canopy appears to have captured a 66% share of the market based on 71.6% million in revenue.

Winner: Canopy's focus on recreational marijuana gives it the edge. Recreational use is expected to outstrip medical use by a large margin and has far greater growth potential. Pot stocks are trading at valuations that are based on their ability to capture a big share of the recreational market.

Top cannabis stock for 2019?

The marijuana market is ever evolving; so too are my own opinions. In January, I had pegged Aurora as the better buy. However, after digesting the most recent earnings, I believe Canopy is the better buy today. This is based on company strategy. It is important to note that Aurora's strategy isn't a bad one. However, Canopy's focus on the recreational market is the better growth option. There is one fact that remains consistent: both companies are the best in their class.

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