Canopy Growth Corp (TSX:WEED) vs. Aurora Cannabis Inc (TSX:ACB): Who Had the Better Earnings?

Description

Last week, **Canopy Growth** (TSX:WEED)(NYSE:CGC) and **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) released record-breaking quarterly reports. Although Aurora's net income came in at a huge loss, both companies achieved triple-digit revenue growth and shrinking operating losses. Collectively, the reports show that revenue from legal cannabis is pushing growers' sales higher.

For investors, however, it's not enough to know that cannabis sales are growing. Anyone considering investing in either cannabis giant needs to know which company is doing the most to generate value for shareholders. Canopy and Aurora followed broadly similar patterns in the final quarter of 2018, but there were enough differences to suggest that these two companies have divergent futures. We can start by looking at revenue.

Revenue growth

Both Canopy and Aurora massively increased their revenues year over year in the final quarter of 2018. However, Aurora's percentage increase was higher at 430% to Canopy's 280%. It's important to remember that Aurora was growing from a much lower base in 2017, which helps to explain why Canopy's gross sales were much higher than Aurora's at a whopping $98 million. As a result of its revenue growth, Canopy reclaimed its status as the number one cannabis stock by sales, which it briefly lost to Aurora in the quarter ended September 31. When we look at earnings, we see another strong point in Canopy's favour.

Earnings

Aurora had a massive net loss in Q2. At $237 million; it was the largest the company had ever reported. By contrast, Canopy posted $74 million in net income. In both cases, financial adjustments account for much of the net income picture: Aurora's operating loss was smaller than its net loss, and Canopy also had an operating loss. As a percentage of revenue, both companies' operating losses were similar. So, I'm inclined to say that Canopy's higher net income makes its bottom-line results better overall.

Legal cannabis sales

The final quarter of 2018 was, for cannabis companies, largely a referendum on legalization. Legalization hit on October 17, which means that that quarter included almost three full months of legal cannabis sales. The question investors wanted answered was, "would this new revenue stream improve cannabis companies' bottom lines?" For Canopy, the answer was a resounding yes, with 7,300 kilograms sold and $74 million in net income. Aurora's earnings statement didn't parse out recreational sales as clearly as Canopy's did, but the 4,000-kilogram boost in volume indicates that it got a helping hand from legalization as well.

Bottom line

In terms of revenue, both Canopy and Aurora posted great results last week. However, when it comes to earnings, the situation was a little different. Canopy was able to generate positive net income, while Aurora wasn't. For this reason, Canopy's results look better. However, it's important to note that both companies' earnings were influenced by financial changes that don't reflect operational results. I wouldn't say that Canopy is a "better buy" than Aurora on the basis of last week's results alone.

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