Better Buy: Tilray (NASDAQ:TLRY) or Canopy Growth Corp (TSX:WEED)?

Description

Tilray (NASDAQ:TLRY) was the first marijuana firm to go public on a major U.S. exchange. The company was an instant winner, with its shares rising significantly — even hitting the $140 mark — late last year. Tilray's stock has shed about half of its value in recent months, however, and investors are wondering whether some of its competitors are more attractive bargains.

Canopy Growth Corp (TSX:WEED) (NYSE:CGC) is one of Tilray's main competitors. The Ontario-based cannabis company has seen its share value skyrocket since early 2018. There are cogent arguments that can be offered for preferring Canopy over Tilray, and vice versa. Let's see which of these pot stocks has the higher long-term potential.

The case for Tilray

One of Tilray's main strengths is the partnerships the company has been able to land. Tilray entered into a global distribution partnership with Sandoz for non-combustible cannabis products, and another with Anheuser-Busch InBev to research cannabis-based beverages.

These agreements are significant for at least two reasons: first, Tilray's focus on the international market is obvious. The company has operations in about nine markets outside of North America, including Germany, which is arguably the largest market outside of North America. Second, cannabis-based beverages are expected to become legal later this year. It looks like Tilray is poised to benefit.

Further, Tilray has made a point to focus on high-margin marijuana products. Dried cannabis has one of the lowest gross margin in the marijuana sector, as there is no shortage of it (including in illegal markets). Other products — such as cannabis oil — have much higher gross margins, and Tilray's explicitly vowed to go after such products.

Not everything is perfect for Tilray, though. The company's production capacity is surprisingly small for a company its size. Tilray can currently produce about 80,000 kilograms per year. As the battle for the top heats up, cannabis companies — most of which are not currently profitable — will have to show their ability to rack up sales and revenues. It is unclear whether Tilray's will be able to compete with some of its peers in this department, despite its focus on high-margin cannabis products.

The case for Canopy

There are good reasons why investors were willing to put their trust in the Canopy. The company is currently the largest cannabis producer in the world by market capitalization, with one of the highest projected production capacities in the industry. At full capacity, Canopy will be able to produce about 500,000 kilograms per year.

Canopy also managed to secure a partner. The alcoholic beverages producer Constellation Brands originally invested about $5 billion into Canopy and acquired about 38% of the cannabis company's shares. Canopy is already putting this cash to good use, with a recent announcement that it would invest between $100 and $150 million into the U.S. hemp market. Canopy obtained a license to cultivate hemp in New York.

The U.S. isn't the only market Canopy has its hands on, however. With operations or partnerships in The U.K, Poland, Germany, Spain, Australia, etc., Canopy is well-positioned to benefit from the growing global cannabis industry. Despite the company not yet being profitable, Canopy showed its potential during the last quarter, with revenues that far exceeded that of any of its competitors. Canopy's revenue was $83 million for Canopy, while **Aurora Cannabis** (TSX:ACB) (NYSE:ACB) — which came in second — reported revenues of $54.78 million.

Canopy currently owns about 30% of the market share in Canada. Growing sales and revenues should help elevate its earnings above negative levels. There is a suspicion that future developments that will benefit Canopy are already factored into its stock price. In other words, some analysts are concerned the stock is overvalued.

The verdict

Canopy looks like the winner between these two cannabis giants. Tilray's partnerships with big brand names and focus on high margin products is surpassed by Canopy's much higher production capacity and sales. Canopy can also boast a partnership with a famous brand, which should help expansion efforts in North America and abroad. Tilray is currently some $20 more expensive that Canopy. All things considered, Canopy looks to be the better bargain at the moment.

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