Which Pot Stock Should You Buy: Aphria Inc (TSX:APHA) or Green Organic Dutchman Holdings Ltd (TSX:TGOD)?

Description

If you invested in a cannabis company last year, you likely made an impressive return. As the stock market caught up to the rapidly growing marijuana industry, nearly every pot stock rose considerably.

Today, nearly a dozen cannabis stocks have market valuations in excess of $1 billion. In many ways, the incredible bargains of yesterday are gone. To succeed as a cannabis investor, picking the right stocks has never been more important. Simply riding the industry-wide wave may no longer be an option.

Two of the most popular cannabis stocks are **Aphria** (TSX:APHA)(NYSE:APHA) and **Green Organic Dutchman Holdings** (TSX:TGOD), but there are critical differences between each company. Which stock is best positioned for another run in 2019?

Stay away from this stock

With a $3.4 billion market cap, Aphria is one of the larger players in the Canadian cannabis industry. In late 2018, however, the company lost nearly 75% of its value after a series of troubling news.

The first domino to fall was a short-seller report from Quintessential Capital that predicted Aphria stock would ultimately fall to $0 per share. The report called Aphria a "shell game."

While rumours continue to swirl, here's what we know.

In September, Aphria finalized its purchase of LATAM Holdings from Scythian Biosciences. Aphria paid nearly $300 million for the company. The purchased was financed by issuing 15,678,310 shares. At the time, Aphria stock was near an all-time high, so it essentially was able to convert its pricey stock into cold, hard cash for Scythian Biosciences investors.

The problem was that some Scythian Biosciences investors were executives at Aphria. In a nutshell, Aphria created $300 million out of thin air (selling overpriced stock) and gave themselves a cash

bonanza.

Quintessential Capital argues that Aphria intentionally overpaid for LATAM holdings in order to enrich themselves. This means the asset is incredibly overvalued. Moves like this could also scare off future investors, making it difficult to raise new capital.

"First of all, the company seems to be setting up, if our thesis is correct, for a giant asset write off," said the founder of Quintessential Capital. "We believe they're going to have a hard time raising new cash, and of course long-term the survival of the company depends on cash's oxygen."

With glaring governance issues, there's no need to take a risk with Aphria stock, especially since another pot stock gives you even better upside at a discounted price.

Green Organic Dutchman is better positioned

Green Organic is mostly focused on Canada. Its assets in Jamaica will largely be used for branding purposes rather than international growth. This strategy is what makes Green Organic Dutchman a winner.

As cannabis supply ramps higher throughout North America, the companies that will win are the ones that can find a way to avoid commoditization. By 2020, nearly every pot producer anticipates production costs will fall considerably. The likely outcome is a price war.

To avoid these issues, Green Organic Dutchman is focused on value-added products. For example, it's already the largest organic cannabis producer in Canada, and its Jamaican assets allow it to create world-class branded cannabis with higher profit margins. Plus, the company is solidifying its hold in the promising CBD market.

"By 2021," I recently wrote, "Green Organic may have 170,000 kilograms of premium-priced organic cannabis under production, plus a cash flow positive CBD business that's capable of tapping a global market."

If you're looking to buy Aphria or Green Organic Dutchman stock, the latter appears to be the clear winner.

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