Forget Canadian Pot Stocks: Why U.S. Cannabis Companies Are Better Buys

Description

Canada may be ahead of the U.S. when it comes to marijuana legalization, but that doesn't necessarily mean that Canadian pot stocks are better buys than their U.S. counterparts.

Aurora Cannabis Inc (TSX:ACB)(NYSE:ACB) is one of the biggest names on the TSX, with a market cap of more than $11 billion. While it generated an impressive $54 million in net sales during its last quarter, it also incurred a hefty loss of $240 million along the way.

Canadian pot stocks have proven that they can grow sales, but there are two big problems: limited market size and lack of profitability. The issues go hand in hand as Aurora and other pot stocks have been expanding into other markets to help grow their business, which leads to higher costs.

However, the market is simply not big enough to justify its high valuation. It would be very difficult to justify Aurora's price tag given that the entire market for cannabis in Canada is expected to be worth less than $6 billion, and that's years from now.

In order for Aurora and other pot stocks to justify their astronomical valuations, many have expanded all over the globe.

Why expanding globally is not a good move at this stage

The sad reality of it is that those expansions are really not going to amount to much in terms of sales or profits. Cannabis has made progress around the world, but it's mainly been the medicinal segment, which is a long ways away from making a dent in recreational sales, as there are still many doubters out there on the effectiveness of cannabidiol.

The U.S. market is where the growth opportunities will be

It's mainly the North American market that's going to drive the cannabis industry, and in particular, the U.S. And that's where U.S. pot stocks have a significant advantage over their TSX-listed counterparts, as they can’t expand south of the border into anything but hemp.

It’s a significant obstacle, and given the large valuations we see for pot stocks on the TSX, it makes a more appealing case for investors to consider U.S. pot stocks instead.

Trulieve Cannabis Corp (CNSX:TRUL) recently released its earnings and did something that many of its rivals in Canada are unable to do: turn a profit without the help of investment gains or fair value adjustments.

Trulieve released its year-end results earlier this month, which showed the company generating an operating profit. While it did benefit from adjustments in fair value, it didn’t need them in order to stay in the black.

Trulieve also had more than $100 million in sales for the year, which would make it one of the top pot stocks in North America. With the company recently opening its 27th dispensary in Florida, it has been growing at a remarkable rate and hasn’t had to resort to setting up operations in several countries around the world because it has plenty of options in its home state.

Aurora has options on the TSX that its peers don’t have access to, and with more states opening their doors to cannabis, the opportunities will only get bigger.

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