



## A Half-Year After Legalization: Canopy Growth (TSX:WEED) vs. Aurora Cannabis (TSX:ACB)

### Description

The end of April marks over six months since Canada officially legalized recreational cannabis. It has not been the most efficient roll-out across the provinces, but production at the top producers is starting the ramp up. By the end of 2019, supply issues should be largely resolved. Now investors can worry about growth at the top companies.

The sector has been hit with some turbulence in the early spring. Several top producers have released [disappointing earnings](#), including **Aphria**. Now the top two cannabis companies by market cap are set to release earnings in the coming weeks. Which is the better buy today? Is either worth picking up? Let's dive in.

### Canopy Growth ([TSX:WEED](#))(NYSE:CGC)

Canopy is the largest cannabis stock in Canada by market cap, coming in at just over \$23 billion as of close on May 1. Shares had climbed 86% in 2019 as of this writing. The stock had enjoyed a big run-up in late April.

Canopy has gained considerable momentum after it announced a deal with Acreage Holdings, one of the top U.S.-based cannabis firms. The deal is contingent upon federal legislation in the United States. The STATES Act or the SAFE Banking Act have the potential to act as triggers for the full acquisition. Acreage CEO Kevin Murphy says that the timeline is probably in the 12- to 18-month range.

Canopy CEO Bruce Linton is forecasting a strong final two quarters this year, but analysts are skeptical. **Scotiabank** is forecasting an earnings miss, citing slow post-legalization sales in 2019. In any case, Linton is predicting \$1 billion in revenue for the fiscal year 2020, as the company charges forward with its international expansion.

A poor quarter could be dangerous for Canopy stock. Shares were trading at the high end of its 52-week range as of close on May 1. Its RSI stood at 66, which puts it close to technically oversold

territory.

## Aurora Cannabis ([TSX:ACB](#))(NYSE:ACB)

Aurora Cannabis is the second-largest cannabis stock in Canada by market cap. Shares had climbed 78% in 2019 as of close on May 1. The stock has flat-lined somewhat after enjoying a spike following the addition of [Nelson Peltz as a strategic advisor](#).

Investors who are worried about Canopy's earnings after the Scotiabank forecast should also fear for Aurora ahead of its next earnings report. It also boasts supply agreements with every Canadian province. In the second quarter, Aurora reported gross margin on cannabis sales of 54%, which was down from 70% in the prior quarter. The company said that the launch of new derivative product lines will contribute to improving margins in future quarters.

Aurora is chugging ahead with a sky-high forward P/E as it ramps up production. It managed to allay concerns in Q2 over its aggressive acquisition strategy, but some analysts are calling for a pullback for the rest of 2019. To add to that, Aurora has yet to net a big partnership. Peltz has said that the company will look to explore multiple deals rather than one giant splash like Canopy has with **Constellation Brands**.

Aurora is currently trading at the high end of its 52-week range. Its RSI of 53 puts it closer to neutral territory, but investors should be concerned about its valuation as we anticipate earnings.

## Be careful not to burn yourself right now

There is too much uncertainty in the sector to recommend either of the big two cannabis giants in early May. The analyst downgrades should not necessarily inspire shareholders to dump shares, but potential buyers should await more favourable entry points.

### CATEGORY

1. Cannabis Stocks
2. Investing

### POST TAG

1. Cannabis

### TICKERS GLOBAL

1. NASDAQ:ACB (Aurora Cannabis)
2. NASDAQ:CGC (Canopy Growth)
3. TSX:ACB (Aurora Cannabis)
4. TSX:WEED (Canopy Growth)

### PARTNER-FEEDS

1. Msn

2. Newscred
3. Sharewise
4. Yahoo CA

### Category

1. Cannabis Stocks
2. Investing

### Tags

1. Cannabis

### Date

2025/06/29

### Date Created

2019/05/04

### Author

aocallaghan

default watermark

default watermark