Why Canopy Growth (TSX:WEED) Will Outperform Aurora Cannabis (TSX:ACB) for The Rest of 2019

Description

The battle for supremacy in the kingdom of marijuana is raging, but not one can claim absolute rule in the industry. Thus far, the fight is confined to who's behind the driver's seat. But it seems that **Canopy Growth** (TSX:WEED)(NYSE:CGC) and **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) will ultimately square off in the end.

Right now, investors have begun speculating as to which of the two "hegemons" will outperform the other for the rest of the year. Either one could be the true growth vehicle. This month is crucial too, especially for Aurora Cannabis. The company is slated to report earnings for the fiscal third quarter ending March 31, 2019, on May 15.

Canopy Growth is scheduled to present its Q4 2019 earnings in late June. The respective earnings reports will more or less dictate the respective stock performance in the second half of 2019. Other weed stocks might even outperform these big two if the earnings fall short again.

Strong sales and swelling losses

Both companies recorded phenomenal top-line growth in their latest quarterly earnings reports, although losses continue to swell. Canopy Growth's net loss stood at $0.38 per share, which the company attributed to the high costs of building the weed-production facilities. As a result, gross margins shrank from 28% to 22%.

Management assured investors that gross margins will bump up once the cultivation facilities come online. Also, they are banking on the sales of cannabis-infused beverages later this year. These new products in the recreational market have significantly lower costs.

Meanwhile, Aurora Cannabis is also contending with diminishing gross margins. The company's losses ballooned to $237.8 million as gross margins on cannabis sales fell from 70% to 54%. The said drop was due to a lower average selling price and a lower mix of cannabis oil sales as explained by the management.

One market analyst described the situation as “top-line relief with margin grief” not only for Canopy Growth and Aurora Cannabis, but for all industry players.

Strategic moves

Canopy Growth’s strategic moves are aimed at conquering the markets in the U.S. and Europe. They obtained the license to produce hemp in New York and are buying the rights to acquire multi-state cannabis operator Acreage Holdings. Europe’s largest cannabinoid-based pharmaceuticals company C3 was bought for the medical market.

Aurora Cannabis is just as active in pursuing deals to compete in foreign markets. The company’s pathway to the U.S. market is through Australis Capital, whose main focus is to invest in cannabis businesses in America. Aurora holds the cultivation license to produce medical cannabis in Germany.

Each company is determined to have a competitive edge. The deciding factor could be the financial resources. Canopy Growth has Constellation Brands (NYSE:STZ) as a partner. Aurora Cannabis won’t find a backer as cash-rich as the Corona beermaker.

Tight race

On the **TSX**, the stocks’ performances are inspiring. WEED is up +74.9% year to date, while ACB is up +70.8%. It’s too close to call. But Canopy Growth will probably outperform Aurora Cannabis for the rest of 2019 by the same slim margin.

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