Marijuana Stocks: Why Canopy Growth (TSX:WEED) Is Beating Aurora Cannabis (TSX:ACB)

Description

Canopy Growth Corp (TSX:WEED)(NYSE:CGC) and **Aurora Cannabis Inc** (TSX:ACB)(NYSE:ACB) are two of the biggest marijuana stocks by revenue and market cap. With a combined $173 million in gross revenue in their most recent quarters, they control the lion's share of the Canadian medical and recreational pot markets. Both companies are also rising forces on the world stage, leading the group of Canadian companies that are increasingly dominating the global cannabis market.

In light of this, it's no surprise that Canopy and Aurora have rewarded investors richly over the years, with both companies gobbling up many thousands of percentage points since their IPOs. As two of the fastest-growing companies in a market where even the weakest stocks usually grow revenue by 100% year over year, Canopy and Aurora are high-growth superstars.

However, between the two of them, Canopy is emerging the clear winner, with greater revenue and, recently, superior profitability metrics. After some close quarters that saw Aurora inching close to Canopy, the latter came out decisively ahead this year and hasn't fallen behind since. Here are the main reasons why:

Canopy's ever-improving production techniques

One of Canopy's key advantages lies in its constantly improving production techniques. In its most recent quarter, the company reduced its cost per gram 18% quarter over quarter and an impressive 32% year over year. While Aurora also lowered its cost year over year in Q3, the 7% trimming is nothing compared to Canopy's 32%. Canopy's increasing cost efficiency is partially the result of R&D, but also its ever-growing production space, which allows it to take advantage of economies of scale.

Aurora's disappointing Q3 earnings

Another factor that's keeping Canopy ahead of Aurora is the fact that Aurora's Q3 results were widely seen as disappointing. Whereas Canopy's most recent quarter was perceived as its best ever, leading many to claim the company could hit $1 billion in sales this year, Aurora's Q3 missed analyst estimates. Granted, when you're growing at 367% year over year, it's hard to beat yourself up too much because analysts expected even more, but a miss is still a miss.

Canopy's cash horde

A final thing Canopy has going for it is a massive $4.1 billion cash horde, which will allow it to pursue big acquisitions for years into the future. This pile of cash is the fruit of last year's **Constellation Brands** investment, which was such a major story at the time that it sent the entire cannabis sector on a months-long rally.

So far, Canopy has been reticent to spend its $4 billion, pursuing only a handful of acquisitions this year, such as the $343 million Acreage deal. This may be a sign of wisdom on Canopy's part, thereby demonstrating that it intends to pursue acquisitions only when they are sure to improve its bottom line. On the other hand, investors will want to see the money put to good use sooner or later, especially since it came from a deal that resulted in significant equity dilution.

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