1 Top Cannabis Stock to Buy Instead of Canopy Growth (TSX:WEED)

Description

The last year has been a tough one for cannabis investors. After performing strongly since the start of 2017, many high-flying marijuana stocks have plunged sharply in the wake of **Canopy Growth's** (TSX:WEED)(NYSE:CGC) disappointing fiscal fourth-quarter 2019 earnings, which sparked considerable doubts about the earnings potential for cannabis companies. While there are signs that cannabis stocks could be in a bubble, there is every indication that the burgeoning global marijuana industry is here to stay and can only continue growing despite recent hiccups.

Disappointing results

Canopy's latest pullback, which sees it down by 14% over the last three months, has created an opportunity for risk-tolerant, speculative investors seeking to boost their exposure to burgeoning legal global marijuana market. A key disappointment for investors was Canopy's fiscal 2019 net loss, which ballooned to $670 million compared to $54 million a year earlier.

Much of that, however, can be attributed to Canopy's focus on ramping up its operations, including expanding its production and processing capacity as well as distribution network. This saw Canopy harvest 46,927 kilograms for fiscal 2019, which was more than double the 22,513 kilograms produced a year earlier. That places it in a position to benefit from the imminent legalization of cannabis edibles in Canada, which is further supported by its alliance with **Constellation Brands**, which invested US$4 billion in Canopy.

Canopy has established a global presence and is poised to enter the U.S. market through its agreement to acquire U.S. multi-state cannabis operator **Acreage Holdings**. That deal will only be triggered once the U.S. federal government legalizes marijuana. While there is a belief among many industry pundits that this event will occur soon, it could be further off than they believe, which would put a dent in Canopy's growth plans. There is still a significant social stigma associated with the consumption of marijuana, and the U.S. federal government in recent decades has invested billions of dollars in combating their use, including conducting a costly "war on drugs."

These reasons combined with Canopy's high cost of production mean it may not be the most attractive investment for gaining exposure to the growing demand for legal cannabis.

Low-cost producer

A cannabis stock worthy of consideration is Canada's second-largest cultivator **Aurora Cannabis** (TSX:ACB)(NYSE:ACB), which has a presence in 24 countries and production capacity of 625,000 kilograms. Aurora reported some solid growth as part of its fiscal third-quarter 2019 results, despite announcing a $158 million loss, which was eight times greater than a year earlier. Consumer revenue for the period grew by a stunning 37% year over year, while international medical sales grew by a whopping 38% to $4 million.

What makes Aurora stand out is that it is a low-cost operator, reporting a third-quarter cash cost of $1.42 per ounce produced compared to $1.48 for **Aphria** and an estimated $6.41 per gram for Canopy. Those low costs make it an appealing investment and should continue to fall, as Aurora expands cultivation in lower-cost jurisdictions such as Colombia, where leading cultivator **PharmaCielo** claims it can cultivate marijuana for a mere $0.05 per gram.

Foolish takeaway

Aurora is a particularly appealing investment, especially when it is considered that the cultivator is focused on expanding and improving its operations, including the introduction of extracts, edibles, and vapes. For these reasons, including its low cost of production, Aurora is shaping up as a superior alternative to Canopy for investors seeking to bolster their exposure to the rapidly growing legal marijuana market.

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