Why Aphria (TSX:APHA) Is a Better Buy Than Canopy Growth (TSX:WEED)

Description

There are growing fears among investors and market pundits that the massive marijuana bubble has reached an abrupt end. **Canopy Growth** (TSX:WEED)(NYSE:CGC) has lost 6% over the last month after releasing some disappointing fiscal fourth quarter 2019 results, including a whopping $670 million loss that was more than 12 times greater than a year earlier.

That loss saw co-founder and co-CEO Bruce Linton step down from Canada's leading legal cannabis cultivator as the board, led by 40% owner liquor giant **Constellation Brands**, which expressed their disappointment in the company's performance.

Are investors losing confidence?

Now medical marijuana cultivator **CannTrust** has been found by Health Canada to have been cultivating cannabis in breach of its regulatory obligations, triggering further market dismay with marijuana stocks. This comes only months after a controversial research report claimed that Canada's second-largest cultivator **Aphria** (TSX:APHA)(NYSE:APHA) was a "shell game with a cannabis business on the side," which sent its stock into a tailspin.

These events have sparked considerable concern that the burgeoning cannabis industry can't live up to its promises, including the expected massive sales growth. That has sparked a sharp sell-off of marijuana stocks over the last month, seeing **S&P/TSX60 Composite Index** members Canopy and Aphria lose 11%, while CannTrust has fallen by a whopping 30%.

Nonetheless, this has created an opportunity for investors to boost their exposure to an industry that's here to stay.

Canada's second-largest cultivator is attractively valued

The last year has been a tough one for investors in Aphria, which has lost almost 25% over that period since allegations were made that management had engaged in activities aimed at enriching themselves at the expense of shareholders.

That makes it one of the most attractively valued among its peers**,** especially given that Aphria is trading at just over 18-times sales compared to Canopy's nosebleed 78 times.

Notably, Aphria is expanding its operations to meet the expected surge in demand when cannabis edibles, extracts and topicals are legalized in Canada on or before October 17, 2019. This market segment alone is forecast to be worth up to $3 billion and will trigger a sharp surge in demand for cannabis in a market where supply has been tight.

Aphria is adding a further 140,000 kilograms annually to its Canadian production capacity at its Aphria Diamond facility which, on approval from Health Canada, will give it combined Canadian production of 255,000 kilograms annually.

It also bit the bullet and cleared the decks after the allegations of acting against the interest of shareholders, reporting a $50 million impairment charge against its Latin American assets which it was claimed were acquired at inflated prices.

In the context of operating in Canada, Aphria is also a low-cost operator reporting third quarter all-in cost of sales of $3.76 per gram compared to around $5.47 per gram reported by Canopy for its fiscal fourth quarter.

For these reasons, Aphria is poised to bounce back and offers the most upside of any major Canadian cannabis cultivator.

Foolish takeaway

Aphria has failed to recover from the sharp drop in value that occurred after a controversial research report from a short seller alleged the business was engaging in overvalued buyouts and fraudulent reporting. This is despite changes being made to management and the cultivator writing down the value of the Latin American assets in question.

In comparison to Canopy and other industry peers, Aphria appears attractively valued, particularly with significantly lower key valuation metrics. Aphria is also continuing to expand its production operations and distribution channels, which will give earnings a considerable boost as demand for legal marijuana continues to grow at a solid clip.

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