#1 Case of Deceptive Stock Prices and How to Play It Safe!

Description

Canadian investors should always look at financials and how a company is faring compared to peers before buying into a stock. It isn't enough to look at just the price.

Speculative traders and insiders have a way of driving up the stock's purchase cost to unreasonable levels. These bubbles are dangerous for long-term investors who are more interested in value and fundamentals.

Canadian investors can find the best example of deceptive stock prices by comparing the earnings results of the two most popular cannabis stocks: **Canopy Growth** (TSX:WEED)(NYSE:CGC) and **Aurora Cannabis** (TSX:ACB)(NYSE:ACB).

Canopy Growth sells for over $30 on the **Toronto Stock Exchange** (TSX), while Aurora sells for less than $7 at writing. The average person could reasonably assume that Canopy Growth sells for a higher price because it's worth more, owns more assets, and sells more pot. This isn't the truth, however.

Aurora beat Canopy Growth sales by 7,244 kilograms

Aurora boasts better financials than Canopy Growth. Aurora sells more by the kilogram and brings in more net revenue than Canopy, demonstrating superiority in the marketplace. Not only is Aurora outpacing Canopy Growth in absolute measures, but Aurora is also growing these metrics at a faster pace than Canopy.

In the most recent quarter, Aurora posted a 61% net revenue growth of $94.6 million, while Canopy Growth only brought in $90.5 million. Moreover, Canopy Growth's revenue actually declined over the last two consecutive quarters by about 4%.

In volume terms, Aurora sold 17,793 kilograms of marijuana – almost 1.7 times the 10,549 kilograms sold by Canopy Growth.

Canopy Growth faces a higher cost of production

Aurora is more efficient at cultivating marijuana in terms of cost to produce at $1.14 per gram. In its last earnings report, Canopy Growth conveniently left out detailed information about production costs. The best way to demonstrate Canopy Growth's higher production cost is in its gross margin.

The gross margin is the company's sales revenue minus the cost of goods sold. As Aurora is more efficient at producing marijuana than is Canopy Growth, Aurora's gross margin is 58% versus Canopy Growth's 43% gross margin.

The gross margin means that Canopy Growth retains just 43% of the revenue after accounting for the cost of producing the cannabis products.

Aurora is the better value option

There are a few different ways of comparing competing stocks against each other in terms of value. One way is the price-to-book value (P/B). The book value is the difference between assets and liabilities. Thus, the higher the P/B ratio, the less asset value a shareholder is purchasing per dollar of investment.

Canopy Growth's P/B ratio is higher than that of Aurora at 1.87. This number means that when a shareholder purchases stock, every $1.87 of the share price is equivalent to $1 of Canopy Growth's assets.

By contrast, Aurora's P/B ratio of 1.41 indicates that shareholders can purchase $1 of asset value with Aurora for only $1.41.

Foolish takeaway

Aurora Cannabis is the better long-term option. New shareholders will receive much more value for every dollar they invest in Aurora compared to an investment in Canopy Growth.

Marijuana shares will likely sell for more than the $7 it costs to purchase stock in Aurora. We don't know if cannabis stock will trade for more than the $30 per share it currently costs to buy Canopy Growth.

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2. NASDAQ:CGC (Canopy Growth)

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debraray