Better Cannabis Buy: Aurora Cannabis (TSX:ACB) vs. Canopy Growth (TSX:WEED)

Description

We have seen how cannabis stocks have burnt investor wealth in the last year. The optimism experienced in October 2018 seems a long time ago now. Leading cannabis stocks such as **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) and **Canopy Growth** (TSX:WEED)(NYSE:CGC) have been more than decimated over the course of a year.

Aurora Cannabis stock is trading at $4.82, which is 58.5% below its 52-week high. Canopy Growth is trading at $28.3, which is 60% below its 52-week high. A lot of uncertainty remains in this space and it is likely that marijuana stocks might trade lower as we get close to the end of 2019.

But the steep market correction also provides an opportunity to buy these stocks at somewhat reasonable valuations.

Revenue growth

Several analysts have revised their sales forecasts lower recently, driven by the tepid quarterly results of Aurora Cannabis and Canopy Growth over the past two months. The marijuana stocks have been driven lower as the illegal market continues to cannibalize sales.

Analysts expect Aurora Cannabis to grow sales by 112.9% to $527.84 million in fiscal 2020 (year ending in June), 67.6% to $884.4 million in 2021, and by 75% to $1.58 billion in fiscal 2022.

Comparatively, they estimate Canopy Growth to grow sales by 121% to $560 million in fiscal 2020 (ending in March), 100.5% to $1.12 billion in 2021, and by 67% to $1.87 billion in fiscal 2022.

Profit margin

Several cannabis stocks, including these two giants, are still posting net losses. However, with strong revenue growth, investors can expect the profit margins to rise at a significant pace. Analysts expect

Aurora Cannabis to be EBITDA-positive in fiscal 2021. They estimate the company's EBITDA to improve from -$156 million in 2019 to -$23.6 million in 2020, and $169 million in 2021. Aurora's EBITDA might reach $453 million in 2022. The road to EBITDA profitability for Canopy Growth is longer. Analysts expect Canopy's EBITDA to rise from -$322 million in 2020 to $103 million in 2020.

In fiscal 2022, investors can expect an EBITDA margin of 28.6% for Aurora, while the same for Canopy is 5.5%.

Valuation

Aurora Cannabis is valued at $4.88 billion (in terms of market cap) or 9.2 times forward sales. It has an enterprise value of $5.29 billion or 10 times forward sales. It has a price to book ratio of 1.26.

Canopy Growth is valued at $9.86 billion (in terms of market cap) or 17.7 times forward sales. It has an enterprise value of $9.15 billion or 14.5 times forward sales. Canopy has a price to book ratio of 2.03.

Cannabis companies continue to invest heavily in manufacturing facilities that will drive growth and expansion. Analysts expect Aurora to spend $600 million in capital expenditure (capex) for 2020. Aurora's capex/sales in 2020 stands at 46% and this ratio falls to 20.5% in 2021.

Canopy's capex/sales in 2020 is 108% and it falls to 50.1% in 2021.

Analyst target estimates

Let's have a look at how analysts expect Aurora Cannabis stock and Canopy Growth stock to perform in the next year. Analysts expect Aurora Cannabis stock to rise 73% in the next 12 months. They have an average price target estimate of $46 for Canopy, which is 62% above the current price.

While Canopy Growth has a higher valuation, it also has higher revenue growth estimates. However, Aurora Cannabis will reach profitability sooner, which might make it attractive to investors. High operating leverage will also help Aurora improve earnings per share significantly over the years.

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