Better Buy for 2020: Canopy Growth (TSX:WEED) vs. Aurora Cannabis (TSX:ACB) Stock

Description

The year 2019 has been one of the worst that investors in Canadian marijuana stocks have seen in the industry's entire history, as both big and small names tumbled to record new multi-period lows, but contrarian bets could be flocking into this space early in 2020 to scoop some rich pickings right at the bottom, and the big pot names could be the easiest natural targets.

When it comes to choosing between the two largest marijuana names to hold going forward, the decision on which ticker to buy between industry behemoth **Canopy Growth** (TSX:WEED)(NYSE:CGC) and close contender **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) could be influenced by several considerable issues.

Let's have a look.

A muted Aurora

This company was evidently the industry's most aggressive player after thr record-breaking acquisition of MedReleaf in 2018, a takeover of industry pioneer CanniMed in the same year, and a strong new facility build-out program worldwide that aimed to achieve a 625,000 kilogram per annum productive capacity in record time.

The acquisitions-led growth spree significantly diluted existing shareholders, while heavy construction projects left the company with a very weak balance sheet and thin cash balances that continue to necessitate dilutive financing programs to this very day. Dilution is still an issue.

Even worse, the sudden departure in December of a key corporate executive Cam Bartley, who has been the face of not only the company but arguably the entire Canadian marijuana industry, could be a disheartening development, and shares have been recording new 52 week lows in recent weeks.

Investors could point to the company's wide international presence as potential new growth frontiers, while the Canadian market's growth stalls, but only Germany and Colombian markets have been contributing significant export revenues of late. And there has been news in early December that Germany sales were halted due to a proprietary production process that required special licensing.

Sales could soon resume in the European territory, but who knows if all lost customers can be regained?

Despite the highlighted concerns, there still remains some positives that the market could bank on for a share price recovery during the new year.

The company reported one of the industry's best adjusted gross margins (58%) during the last quarter, which closed in September, and management was proud to show declining cash costs of producing cannabis, as operations gravitate towards operational profitability.

The company deserves to boast a growing, strong medical marijuana patient portfolio, which recorded a further 8% sequential growth during the third quarter (probably a gain from an embattled **CannTrust Holdings**), while the suspension of ambitious expansion programs will save over $190 million in cash flow over the next few months and stall shareholder dilution.

All things considered, the company could still generate respectable sales numbers going forward considering its wide distribution channels, strong contracts with provinces, and a growing international sales network across 25 countries, but a growth in total addressable market and client wins away from the resilient underground pot market is needed for quicker volumes growth in the near term.

Canopy Growth

This is the pot firm with the industry's largest cash pile, which boasts probably the strongest balance sheet in the entire space thanks to **Constellation Brands's** earlier investment.

Revenue growth has also stalled, as it has for Aurora, but new CBD product launches in the United States could breathe in some highly desired fresh air to the top line in 2020, even under the hanging dark cloud from the USFDA agency that recently came out strong and loud against the product line and threatened legal action against a number of industry players.

Further, new investor hopes could be ignited by the recent installation of a new CEO, who was sourced from the company's largest single institutional investor — a strong numbers man who will replace the growth-at-all-costs co-founders in January.

The new leadership could be laser focused on streamlining operations to reduce the bloated operating expense lines to drive the company towards a better profitability profile.

Which cannabis stock should you buy?

Market sentiment remains negative for both large industry players, but a lack of strong partnerships for marijuana edibles and a weaker balance sheet could weigh down Aurora and drag the stock's performance to underperform Canopy Growth during the new year.

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Date
2025/08/24
Date Created
2019/12/30
Author
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