



## Interested in Aurora Cannabis Stock? Try These Companies Instead

### Description

Cannabis stocks are likely among the most polarizing stocks today. After it was announced that Canada would be [legalizing the use](#) of recreational marijuana, cannabis stocks experienced tremendous growth. Unfortunately, they have since fallen and have yet to recover to their previous levels. Now, with the recent impressive run by **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB), is it time to give these companies another look? Before you rush to get your hands on Aurora Cannabis stock, give **Hexo** ([TSX:HEXO](#))(NYSE:HEXO) and **Aphria** (TSX:APHA)(NYSE:APHA) some consideration.

### Valuation metrics

Since Aurora, Hexo, or Aphria are not profitable, we cannot use price to earnings as a comparator. However, we can still use other metrics, such as price to sales and price to book. Typically, a price-to-sales ratio between one to two would be considered good value. Aphria falls the closest to this range, with a 2.95 price-to-sales ratio over the past 12 months at the time of this writing. Hexo is the next closest at 6.40, and Aurora, arguably the most popular cannabis stock, has a sky-high 7.58.

Regarding the price-to-book ratio, value investors will typically look for ratios under one. Aphria finished the most recent quarter with a 0.83 price-to-book ratio, and Aurora and Hexo finished their most recent quarters with nearly identical ratios of 0.59 and 0.58, respectively. This indicates that all three companies are showing good value at the moment.

### Revenue

Another important aspect to consider is the revenue growth that a company exhibits, as this can speak to its ability to gain market share and the general demand a company encounters. Aurora reported a respectable increase in revenues of 449% from fiscal year 2018 to 2019. The 642% increase in revenue experienced by Aphria was the next highest between the same years. Finally, Hexo showed the greatest increase in revenue from year over year, a staggering 963%. These numbers indicate that while all three companies are still showing excellent growth in revenue year over year, the lesser-

known cannabis companies appear to be growing at a much larger rate.

## Insider ownership

Generally, a large ownership stake by insiders is seen as a positive thing for public companies. It allows the executive team to maintain control of voting rights and indicates to investors that insiders believe in the company. Therefore, comparing the respective amounts of insider ownership between these three companies could provide insight into the potential that each executive team has in their company.

Aphria currently has the least insider ownership, with just 2.84% of shares belonging to insiders. Aurora Cannabis has a marginally greater amount at 2.90% of shares outstanding. Again, Hexo has the most impressive numbers in this metric, with its insiders holding an impressive 5.83% of shares.

## Financial position

The final comparison between Aurora, Aphria, and Hexo is regarding financial position. Aurora currently has just over \$551 million in cash and cash equivalents, while only reporting \$6.3 million in current debt. This would indicate that the company would be able to cover all of its debt in the near future. Aphria is less impressive with about \$173 million in cash and cash equivalents while being on the hook for just under \$250 million of debt due within the next year. In this case, the company would likely need to raise capital at some point, potentially diluting shareholders. Finally, Hexo is currently showing a relatively safe financial position with \$139 million in cash on hand and only \$52.6 million in debt.

## Conclusion

Depending on the valuation metric you use to evaluate a company, you can easily make a solid argument for choosing either Hexo or Aphria over Aurora. In fact, Hexo came out on top when looking at revenue growth and insider ownership, while maintaining a safe cash position. Although the impressive run Aurora Cannabis has shown recently is [well documented](#), Hexo and Aphria may be better buys at this point in time.

### CATEGORY

1. Cannabis Stocks
2. Investing

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1. NASDAQ:ACB (Aurora Cannabis)
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