Buy This 1 Weed Stock Instead of Canopy Growth (TSX:WEED) Stock

Description

Marijuana stocks might be poised to make a comeback after spending months at multi-year lows. The COVID-19 pandemic coupled with a slew of structural issues sent pot stocks spiraling downwards. However, there is a glimmer of hope for investors, as cannabis companies are looking to improve profit margins and strengthening their financials to ensure long-term sustainability.

If you are looking to enter this high-risk, high-reward segment, the current market conditions might be ideal. Investors still need to bet on companies that have the best possible chances to multiply their wealth.

Cannabis giant **Canopy Growth** (TSX:WEED)(NYSE:CGC), has crushed the broader markets, despite trading 65% below record highs. A $1,000 investment in Canopy Growth stock back in 2014 would have ballooned close to $75,000 today.

The pot company is backed by **Constellation Brands**, which has a 38.6% stake in Canopy Growth. Constellation's former CFO David Klein is now at the helm of Canopy Growth and has taken a different approach as the CEO. As Canopy Growth was struggling with mounting losses, Klein has prioritized improving the bottom line.

To cut costs, the cannabis heavyweight closed down operations in several international markets. While improving profit margins should be a top priority, Canopy's focus on growth was one of the reasons it was a hot commodity among peers.

Analysts tracking Canopy Growth expect the company to post earnings per share of -$1.4 in fiscal 2021 and -$1.07 in fiscal 2022. We can see that despite lowering costs and exiting unprofitable markets, Canopy will find it difficult to post a net profit in the short term.

Here's why Aphria is a top pot stock

While Canopy Growth is grappling with losses, **Aphria** (TSX:APHA)(NASDAQ:APHA) is no longer burning cash. It is one of the top Canadian pot stocks in terms of net revenue, adjusted EBITDA, and operating income.

Aphria ended the last quarter with a cash balance of $515 million, which can be used to fuel organic growth by increasing capital expenditures or acquire discounted marijuana producers in a beaten-down market.

In the first three fiscal quarters of 2020, Aphria's net income stood at $391 million. It also reported a gross profit of $142 million and a net income of $14.2 million. In the prior-year period, the company's net income and gross profit stood at $108 million and $37 million, respectively, while it reported a net loss of $32 million.

Comparatively, Canopy Growth's fiscal 2020 sales stood at $398.77 million. While Canopy Growth has a forward price-to-sales multiple of 20.8, this ratio for Aphria is much lower at 2.9. Further, Aphria has reported a positive net income in three of the last eight quarters.

Aphria stock is trading at a price of $5.86, and analysts expect the stock to reach $8.19 in the next 12 months, indicating an upside potential of 40%. Canopy Growth stock is trading at a discount of 2.4% to average analyst estimates.

The cannabis industry is still at a nascent stage of growth. While there might be multiple stocks that can generate multi-fold returns, Aphria's profitable business provides it with the best opportunity to outperform peer marijuana producers.

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