2 Cannabis Stocks to Buy Amid the Current Challenging Environment

## Description

The Canadian cannabis sector is going through a challenging period. It is facing a slew of structural issues, such as lower-than-expected demand, a thriving black market, pricing pressure, and slow rollout of retail stores. All these issues have lowered cannabis sales, which has led to a rise in operating losses and higher cash burn.



However, given their strong balance sheets and a viable business models, **Aphria** (TSX:APHA)(NASDAQ:APHA) and **Canopy Growth** (TSX:WEED)(NYSE:CGC) are well equipped to ride out this challenging period.

# Aphria

So far this year, Aphria has lost close to 10% of its stock value. In its recently completed fourth quarter, the company reported a net loss of $98.8 million, which dragged the company's stock price down. However, a significant part of those losses were non-recurring or one-time charges. So, I believe the fall was unwarranted.

Also, during the quarter, the company's revenue grew 5% on a sequential basis, driven by the strong performance by the distribution segment. It also reported a positive EBITDA for the fifth consecutive quarter — a rare achievement for a cannabis company.

Its EBITDA came in at $8.6 million, which was an increase of 49% from its previous quarter. Supported by greater yield and improved efficiencies, the company has managed to bring its cash cost of production down by over 5% to $0.88 per gram.

Meanwhile, Aphria has been strengthening its market share in key markets through its product differentiation and compelling offerings. Currently, the company offers six brands across the medical and adult-use categories. It has also planned to add two more brands this fiscal year.

In the international markets, the company plans to spend another $15 million to boost its sales programs in Germany. During the fourth quarter, the company's Malta subsidiary received the EUGMP

(European Union Good Manufacturing Practices) certification. The certification allows the company to export the cannabis products produced from the facility to any European country that has legalized cannabis. So, the company's growth prospects look strong.

Meanwhile, at the end of the last quarter, the company had cash and cash equivalents of $497.2 million. Further, it can raise another $100 million through an at-the-market program. So, the company has ample liquidity to fund its expansion initiatives. Given its impressive growth prospects and strong liquidity position, I am bullish on Aphria.

## Canopy Growth

Last month, Canopy Growth reported an impressive first-quarter performance, beating analysts' expectations. Its revenue came in at $110.4 million, representing a 2% growth on a sequential basis. Higher medical cannabis sales in Canada and Germany drove the company's revenue. However, the temporary closure of retail stores amid the pandemic lowered its recreational cannabis sales.

Meanwhile, the company is working on improving its recreational sales in Canada. It has re-positioned its value brands with higher and more consistent THC ranges to meet the customers' requirements. Also, the company is planning to expand its Cannabis 2.0 offerings.



In the United States, Canopy Growth has increased its online presence by launching an e-commerce site. Also, it has expanded the distribution of its vaporizer and non-CBD beverage products to key markets. All these initiatives could act as a tailwind for the company.

Despite showing improvement, the company's adjusted EBITDA remained in the negative territory in its first quarter. Meanwhile, the company is looking to cut down on its expenses to move towards profitability. It has slashed 18% of its headcount since the beginning of this year. Also, it has closed several production facilities to optimize its output to align with the existing demand.

In the first quarter, the company was able to lower its cash outflow by 50% to $181 million. Meanwhile, at the end of the quarter, its cash and cash equivalents stood at $2 billion. So, the company's liquidity position looks strong.

Meanwhile, the company currently trades over 20% lower for this year, which provides an excellent entry point for long-term investors.

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