



## 2 TSX Stocks to Buy Amid Renewed Interest in Cannabis

### Description

The cannabis sector, which has been going through a challenging period, received some good news yesterday. Arizona, New Jersey, South Dakota, Montana, and Mississippi voted in favour of legalizing some form of cannabis. After yesterday's result, 35 states have legalized cannabis usage for medical purposes, while 15 states have legalized adult-use or recreational cannabis.

Yesterday, *Bloomberg Quint* [reported](#) that New York State's governor Andrew Cuomo told a radio station that the state would look at legalizing recreational cannabis in the next year. Meanwhile, the victory for Democrats in the United States presidential elections could hasten the cannabis legalization process at the federal level.

The favourable events improved investors' sentiments driving the cannabis stocks higher, with the industry benchmark **Horizons Marijuana Life Sciences Index ETF** rising by 11.2% yesterday. Amid the renewed interest in cannabis stocks, I believe **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) and **Aphria** (TSX:APHA)(NASDAQ:APHA) are well equipped to deliver superior returns over the long run.

### Canopy Growth

In its June ending quarter, Canopy Growth had [outperformed analysts' top- and bottom-line expectations](#). However, its recreational sales had witnessed a decline of around 11% year over year due to the temporary store closures amid the pandemic.

Meanwhile, the company is working on driving its recreational sales. It has repositioned its value products with higher and more consistent THC ranges. It has also expanded its Cannabis 2.0 offerings, including cannabis-infused vapes, beverages, and chocolates, to expand its market share.

In the world's largest cannabis market, the United States, Canopy Growth focuses on expanding its footprint. In July, the company launched an e-commerce website, which sells over 25 SKUs of the company. Meanwhile, its subsidiary, BioSteel Sports Nutrition, has partnered with Manhattan Beer and Reyes Beer Division to broaden its footprint across the United States. Further, the company is working with Acreage Holdings to introduce THC-infused beverages in the Summer of 2021.

Boosted by the investments from **Constellation Brands**, Canopy Growth had \$2 billion of cash and short-term investments at the end of its first quarter. So, the company has ample liquidity to support its growth initiatives and drive its financials.

## Aphria

Aphria has been under pressure since reporting a lower-than-expected first-quarter performance last month. Its revenue had declined by 4% on a sequential basis due to lower distribution revenue. Amid the pandemic, in-person visits fell in Germany, lowering the revenue from its subsidiary, CC Pharma.

However, driven by a strong performance from its recreational segment, its net cannabis sales grew 18% quarter over quarter. The growth in vape sales, the introduction of large format SKUs, and the launch of a new value brand — B!NGO — drove the company's cannabis sales.

Aphria is one of the few companies that has managed to report positive EBITDA for six consecutive quarters. Driven by higher cannabis sales and its cost-cutting initiatives, its adjusted EBITDA increased 17% to \$10 million. During the quarter, the company's cash cost of producing cannabis fell to \$0.87 per gram, while its SG&A expenses witnessed a significant decline.

The company's outlook looks healthy. It has expanded its market share in Canada's primary markets through its strong value propositions and differentiated product offerings.

Moving to international markets, the company had signed a two-year agreement with Canndoc, a medical cannabis producer in Israel, in August to supply dried bulk flowers. In January, the company received E.U. GMP certification to its Aphria One facility, which can boost its exports to Europe. Last month, the company completed its first shipment of dried flowers to CC Pharma from the facility.

Further, Aphria looks to enter the United States through the acquisition of Sweetwater Brewing Company. On Wednesday, it announced it signed an agreement to acquire the craft-beer company for US\$300 million. Given its healthy growth prospects and strong balance sheet, I am bullish on Aphria.

### CATEGORY

1. Cannabis Stocks
2. Investing

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