



The Cannabis Trade Is Heating Up Again: Should You Be a Buyer?

Description

With Joe Biden to take the oval office, the cannabis trade has heated up again. Shares of **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) skyrocketed 56% on Friday, the day before it was announced that Joe Biden would be crowned the next president of the United States. Similarly, **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) surged over 10% on the day. Having not lost as much ground as its top peer Aurora in the past several months, it was expected that Canopy would have less heat behind it than past Robinhood favourite Aurora, which had lost well over 90% of its value from peak to trough.

Canopy Growth looks to be the safer, albeit pricier way to play cannabis producers at this juncture, given it has established behemoth and alcohol giant **Constellation Brands** standing closely in its corner, which has been quietly building its position in Canopy on the way down.

Mad Money host Jim Cramer has often referred to Canopy as a pot stock that's "too good to be written off." Although the Biden bounce has been less pronounced for Canopy versus the likes of its top peer, I think the name has a similar risk/reward trade-off as the likes of an Aurora, with a slightly lower risk for a relatively more muted amount of upside.

A tale of two marijuana kingpins

Canopy Growth stock is just a double away from flirting with its all-time highs, whereas Aurora needs to be more than a 10-bagger if it's going to see its highs again. With Canopy, I view a lower magnitude of downside risk given it's likely to have the deep pockets of Constellation at its disposal. Given the profound magnitude of cash burn, access to capital is vital for the long-term survival prospects of the cannabis licensed producers (LPs). With the comfort of having Constellation as a major dance partner, Canopy is more of a sound investment than that of an Aurora Cannabis, which looks to be a calculated [high-upside speculation](#) at best.

Fellow Fool contributor Debra Ray seemed to think that both Canopy Growth and Aurora Cannabis were both [great options](#) at the cusp of the Biden bounce but noted that investors are more confident with Canopy Growth, even though it sports a far higher price-to-sales (P/S) multiple at north of 21

versus just north of two for Aurora.

Should you buy Aurora Cannabis or Canopy Growth stock?

While cannabis investors will profit profoundly with either name in a continued rally in cannabis names, I'd have to give Aurora the slight edge, as shares have greater upside, and the stock is multitudes cheaper than the likes of Canopy. Not to discount Canopy's incredible dance partner, but I'd rather nab a pot stock at a massive discount to book value (ACB trades at 0.3 book) than pay a premium (WEED trades at two times book) for the comfort of having an established behemoth backing it.

The way I see it, it's far better to go for the greatest upside if you're going to bet on a turnaround in the cannabis scene. Although Canopy is likely to be less volatile, I think to invest in Canopy over Aurora at this critical crossroads is to be leaving a tonne of profit on the table, especially if you consider yourself a young, fearless investor.

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1. NASDAQ:ACB (Aurora Cannabis)
2. NASDAQ:CGC (Canopy Growth)
3. TSX:ACB (Aurora Cannabis)
4. TSX:WEED (Canopy Growth)

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