



Better Buy: Canopy Growth (TSX:WEED) vs. Aphria (TSX:APHA)

Description

The expanding addressable market amid increased legalization and Democrats taking over the control of both Senate and House in the U.S. appear to have brought much-needed relief to the cannabis sector. Since the beginning of November, the industry benchmark **ETFMG Alternative Harvest ETF** has returned close to 98%. So, amid the increased buying in the cannabis sector, which among **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) and **Aphria** (TSX:APHA)(NASDAQ:APHA) could be a better buy right now?

Canopy Growth

Canopy Growth is one of the largest cannabis companies in terms of market capitalization. It has acquired a significant share in the Canadian cannabis-infused beverage segment, thanks to its portfolio of seven ready-to-drink THC beverages and two ready-to-drink CBD beverages.

Meanwhile, it focuses on increasing the THC content in its value products and improving its quality to expand its market share. Further, the company has also increased the number of company-owned store to 32 at the end of the second quarter.

Meanwhile, in the United States, the demand for its Storz & Bickel vaporizer products has been rising. So, to meet the increased demand, the company has planned to triple its production this year. It also intends to introduce THC-infused beverages in California and Illinois in association with **Acreage Holdings**.

Further, Canopy Growth has joined hands with Martha Stewart to launch health and wellness CBD products for humans and pets. So, the company's growth prospects look healthy. With its liquidity standing at \$1.72 billion at the end of the second quarter, the company is well positioned to support its growth initiatives.

However, Canopy Growth is yet to become profitable. Meanwhile, the company's management has taken several initiatives, such as closing down excess production facilities and slashing headcount to move towards profitability. The company's management is hopeful of reporting positive adjusted

EBITDA in fiscal 2022. Besides, the company will report its third-quarter earnings of fiscal 2021 next week. [I am optimistic about the company's performance.](#)

Aphria

Last month, Aphria had reported an impressive [second-quarter performance](#). It had posted revenues of \$160.5 million against analysts' expectation of \$153.9 million, while its adjusted EPS came in at \$0.01, comfortably beating analysts' expectation of a loss per share of \$0.03. It also posted positive adjusted EBITDA for the seventh consecutive quarter.

The strong second-quarter performance and optimism in the cannabis sector have led Aphria's stock price to rise close to 215% since the beginning of November.

Despite the substantial rise, I believe the rally in Aphria could continue, given its high-growth prospects. Amid the strong performance from its vape and dried flower segments, the company has gained a substantial market share in the Canadian recreational cannabis market. Meanwhile, the company is introducing higher potency products to meet customers' demands.

With its recent acquisition of SweetWater, Aphria is looking at expanding its operations in the U.S. Further, its proposed merger with **Tilray** could significantly strengthen the combined entity's position in Canada, the U.S., and also European markets. The synergies between the two companies could also produce \$100 million of saving within the first two years of completing the transaction. So, Aphria's growth prospects look robust.

Bottom line

Although both Canopy Growth and Aphria offer significant growth potential, I am going with Aphria, given its impressive track record and relatively cheaper valuation. Currently, Aphria trades at a forward price-to-sales multiple of 4.8, while Canopy Growth trades at a forward price-to-sales of 13.1.

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