



Should You Buy Canopy Growth (TSX:WEED) or Aurora Cannabis (TSX:ACB) Stock?

Description

Everyone knows that diversification is key to investing, as it protects investors from too much exposure into one specific sector. Having cannabis stocks in your portfolio may be a great idea if you are looking for a well-rounded portfolio.

In Canada, marijuana has been legalized for medical use since 2001 and recreational use since 2018. This has allowed the industry to grow without as many restrictions as seen in the United States. In this article, we will compare Canada's top two marijuana companies: **Canopy Growth** ([TSX:WEED](#)) (NYSE:CGC) and **Aurora Cannabis** ([TSX:ACB](#)) (NYSE:ACB).

Overview

[Canopy Growth](#) was founded in 2013 and was formerly known as Tweed Marijuana. In 2015, it was renamed to Canopy Growth after a merger with Bedrocan Canada. The company is also a constituent of the S&P/TSX 60, an index of 60 large companies listed on the Toronto Stock Exchange. This indicates that the company is a leader in the cannabis industry, as the index is meant to represent the leading companies in important industries.

Aurora Cannabis was also founded in 2013. It is a Canadian licensed cannabis producer headquartered in Edmonton. Recent years have been rough for the company, which has led to changes in the company's management. In February 2020, Aurora's co-founder and CEO, Terry Booth, resigned. Executive Chairman Michael Singer was brought in as the interim CEO.

Valuation and performance

In terms of valuation, Canopy Growth is a much bigger company at a market cap of \$8.1 billion compared to the \$1.9 billion market cap of Aurora Cannabis.

At a glance, we can see that both companies have a negative price-to-earnings ratio, indicating that

neither company is currently profitable. Canopy Growth currently has a forward price-to-earnings ratio of -20.55 compared to the forward price-to-earnings ratio of Aurora Cannabis (-16.30). If we are judging the companies by this metric, one could argue that Aurora Cannabis is trading at a slightly more reasonable valuation.

From 2018 to 2019, Aurora Cannabis's total revenue grew from \$55.196 million to \$247.939 million, representing a 349% increase. Meanwhile, Canopy Growth's total revenue only grew from \$77.948 million to \$226.341 million, representing only a 190% increase during the same period.

Although the respective revenue growth of each company would suggest Aurora is the better growth stock, the stock prices of these companies have told a different story. Over the past five years, Canopy Growth's stock price has climbed a whopping 942.58%, while Aurora Cannabis has only grown 315.38%. The difference in stock success may be attributed to Aurora's difficulties within its management, as stated earlier.

A brief look at the financials

Canopy Growth's trailing 12-month (TTM) total revenue currently stands at \$398.772 million compared to the TTM revenue of Aurora Cannabis (\$305.734 million).

Another thing to note before considering investing in either company is the TTM net income for both companies. Currently Canopy Growth's TTM net income is -\$1.32 billion compared to the -\$1.41 billion TTM net income of Aurora Cannabis. Both companies are currently operating at a loss, which may be something that wards off potential investors.

Looking further at the net loss of both companies, some investors may look at it and decide that there may be room for improvement in the future, and one day they could be operating a net profit. Once the companies reach profitability, demand for these stocks may increase significantly.

Foolish takeaway

As all investors know, past performance is not indicative of future results. Being valued four times less than Canopy Growth, Aurora Cannabis definitely has a lot of room to grow in terms of revenue and market capitalization. I have previously suggested investing in [other weed companies](#).

However, if you insist on one of these two, Aurora Cannabis's stock price has been hammered down a lot more than Canopy Growth's, although its metrics are arguably more impressive. This may suggest that this is a better time to buy Aurora Cannabis for cheap.

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TICKERS GLOBAL

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