



Can Aphria Inc. Challenge Canopy Growth Corp.'s Dope Dominance?

Description

In 2016, pot stocks sky rocketed. Individuals who acquired shares of any publicly traded cannabis producer in early 2016 saw astonishing returns. However, these companies are currently overvalued, and seeing similar returns in 2017 is unlikely. If any bad news arises, these stocks could plummet.

That being said, it's more a question of *when* rather than *if* marijuana will be legalized. **Canopy Growth Corp.** ([TSX:WEED](#)) has garnered the most attention and established itself as the market leader; however, there is another company in the Canadian marijuana industry that could emerge as a potential winner. That company is **Aphria Inc.** (TSX:APH.V), and it has quietly developed into a strong and profitable company.

A CEO with experience

One of Aphria's greatest strengths is in its CEO, Vic Neufield. Vic ran a little vitamin company known as Jamieson Laboratories. After running the business for 21 years, he sold the company to CCMP Capital Advisors for \$300 million. He was planning to retire after the sale of Jamieson Laboratories; however, the opportunity to run Aphria was brought to him and he couldn't turn it down.

Under Vic's leadership, Aphria was the first marijuana company to have positive cash flow and net income in back to back quarters. With \$98 million in cash on hand, Vic will have the resources to continue to grow the company organically and expand its production capacity.

Low-cost producer

Since there is an illicit market already established for marijuana, producers won't have the advantage of determining the market price of this commodity. The illicit market will be forced to undercut the legal producers to continue sales; therefore, the legal producers' pricing power is diminished. Due to the potential pressure on prices, companies with the lowest costs have the best chance of beating the illicit market.

Currently, Aphria is one of the lowest-cost producers of cannabis. It produces all of its cannabis in greenhouses, which allows it to have lower input costs than its competitors. In December 2015, Aphria

stated it can produce cannabis at roughly a \$1.80/gram, while its largest competitor, Canopy, is producing marijuana around \$2.77/gram. By having the lower costs, Aphria is positioning itself to remain profitable if the illicit market dictates the selling price.

Foolish bottom line

In an industry with larger barriers to entry, Aphria is in a strong position due to its financial performance to date and first-mover advantage. That being said, there is still a lot of uncertainty regarding the marijuana market in Canada, and it's too early to tell who will emerge as winners in the industry.

If you're keen on gaining exposure to the marijuana industry, make sure it's only a small percentage of your portfolio. It can be thrilling to pick a wildcard winner from time to time, but it's not the approach I recommend for all of your investment decisions.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:WEED (Canopy Growth)

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Author

cbeck

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