Will Aphria Inc. Fall Behind Aurora Cannabis Inc. by 2019?

Description

Without a doubt**, Aphria Inc.**(TSXV:APH) has one of the most stellar balance sheets in the marijuana industry to date; it's one of the very few solid medical marijuana companies generating organic growth through sustainable profitability.

Four consecutive positive earnings quarters are under its belt, and a cautious, well-planned phased expansion program make Aphria a strong force to compete against leader **Canopy Growth Corp.** (TSX:WEED) and other incumbents such as **Aurora Cannabis Inc**. (TSXV:ACB) and **OrganiGram Holding Inc**. (TSXV:OGI).

As the dates for potential recreational marijuana legalization draw nearer, all cannabis producers are rushing to exponentially expand production facilities by building new, high-tech, automated greenhouses and acquiring the properties of other vulnerable targets — all in a haste to grab the biggest recreational market share.

Aphria announced in January this year that it's embarking on a $137 million part four expansion program that will further grow the company's production facility from the 300,000 square feet that the company's part three program had previously targeted for September 2017 to a gigantic 1,000,000-square-foot greenhouse growing facility to be completed by January 2018.

This is a huge facility — way bigger than the 800,000 square feet Aurora Sky being constructed by Aurora. However, Aphria's facility is expected to only produce and process 70,000 kgs of annualized harvests, which is lower than the 100,000 kgs that Aurora foresees from Aurora Sky.

Moreover, Aurora has announced its intention to acquire bankrupt **Peloton Pharmaceuticals Inc.** for $7 million, and that would add another 40,000 square feet production capacity, but there are no productivity estimates yet.

If management projections are to be trusted, and all expansion projects are completed as planned, Aurora will have a cumulative productive capacity of 105,400 kgs by February 2018 with 5,400 kgs coming from its existing 52,500-square-foot facility in Alberta. Aphria, however, will have a 70,000 kgs productive capacity by May 2018 with full crop rotation by September 2018.

If we are to see recreational marijuana legalization before December 2018 and a surge in market demand to more than 300,000 kgs, as **Canaccord Genuity** estimates for 2019, and assuming that all produce will be sold during the year, then Aphria could easily fall behind Aurora on revenues.

At an estimated general price of $8 per gram of dried cannabis, Aurora could generate over $840 million revenues in 2019 against Aphria's anticipated capacity for $560 million.

Investor takeaway

A belief in management estimates and speculation do support the view that Aphria could fall behind Aurora on revenues by 2019, but that is all speculation.

Aurora hasn't proven the authenticity of its productive capacity yet, and it may be overly optimistic with the Aurora Sky capacity. Actual production numbers may be lower, and Aphria's figures, due to better management experience, may come more in line with estimates.

As of November 30, 2016, Aphria had a $98.6 million cash vault and owed just $6.8 million long-term debt. It will not just watch Aurora take over the number two spot behind Canopy. There is so much Aphria could do, and its announced graduation to the main TSX exchange could allow it to raise cheaper financing for further expansion.

We wait to see how the marijuana industry match plays out. In the meantime, happy investing.

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