Why Aphria Inc. Could Be a Canadian Marijuana Market Leader

Description

Aphria Inc. (TSX:APH) appears to have all the qualities that could make it a big winner in the emerging marijuana industry. The company recently delivered a phenomenal fourth quarter which saw “industry-record” decreased production costs. It’s clear that the management team is focused on operational efficiency — an area that I believe will separate the real winners from the losers. In addition to continuous operational-improvement initiatives, Aphria has also been making deals that open numerous doors to even more promising long-term revenue expansion opportunities.

Solid fourth-quarter results show that Aphria can stand head and shoulder above its competition

Aphria delivered revenue of $5.7 million and EBITDA of $2.8 million, marking the seventh consecutive quarter of positive earnings, putting some of its less-efficient peers like **Canopy Growth Corp.** (TSX:WEED) to shame.

While other marijuana growth companies may be focusing on revenue growth and other opportunities, Aphria’s focus is on efficiency, and it’s already starting to pay dividends (not literally, of course). The most astounding part of the quarter was that the cost per gram of cannabis decreased by a whopping 36% to $1.11 per gram compared to the previous quarter.

Those are really impressive numbers. If you treat cannabis as a typical commodity, then Aphria appears to be off to a fantastic start and will be one of the biggest long-term winners. The management team noted that its per-gram cash cost is $0.79, and I believe it’s quite possible that the company can continue to decrease production costs even further thanks to the innovative tech that’s being used to improve yields as well as quality.

Shares of Aphria rallied following the quarter, and I believe that’s a very promising sign of more good things to come. Once legalization arrives, the hype is likely to return, and trading volumes are likely to increase. That means shares of Aphria would be very well positioned to soar above a lot of its peers in the Canadian marijuana scene. However, **Aurora Cannabis Inc.** (TSX:ACB) appears to be another top-notch business that could challenge Aphria for the title of Canada’s best long-term marijuana producer.

Aphria is making smart deals to capitalize on global opportunities

Aphria has been very active of late as it makes moves to expand globally. Aphria recently invested US$2 million in shares of Nuuvera and will supply 1,500 kilograms of marijuana to the company per year. Once Aphria’s expansion projects are complete, Nuuvera’s demand will increase by an exponential amount in the years ahead.

More recently, Aphria announced its $11.5 million investment in Scientus Pharma. Aphria CEO Vic Neufeld stated, “Their proposed pipeline of new and innovative products represent a major step forward for cannabinoid based medical products in Canada. Gaining access to their dealer's licence provides Aphria immediate access in the short-term to enhanced global opportunities."

Going forward, Aphria is likely to continue to make even more deals to open doors to growth.

Bottom line

Aphria is firing on all cylinders with its efficiency-driving initiatives as well as its strategic investments. I'm a huge fan of the management team's efficiency focus, and I believe they'll be successful in delivering huge value to long-term shareholders.

Although Aphria has been making a lot of investments, the balance sheet is still pretty healthy. The company is expanding production at a ridiculous rate without sacrificing efficiency or profitability.

Aphria looks like one of the top marijuana stocks out there, but it's still subject to a high degree of volatility and headline risk. Aphria has a considerable number of U.S. assets and, unfortunately, U.S. pot laws are creating a great deal of uncertainty regarding how shares will be traded in the future.

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joefrenette