Aphria Inc. Posts Strong Q1 Results That Show Further Cost Reductions

Description

Aphria Inc. (TSX:APH) released its Q1 earnings today which showed revenues reaching over $6 million for a 40% increase from last year. Net income also jumped to $15 million for the quarter, up from less than $1 million a year ago. Aphria's EBITDA saw a 47% year-over-year increase and is the eighth consecutive time that the company has had a positive earnings number. Overall, earnings per share of $0.10 increased from just $0.01 in the previous year.

Let's have a deeper look into the company's earnings to see how the company performed and what drove the incredible increase in its bottom line, and whether the stock is a good buy today.

Further cost efficiency achieved

Aphria prides itself on being one of the lowest-cost producers of cannabis in the industry, and its all-in costs of $1.67 per gram in Q4 have continued to drop as Q1 posted an average cost of just $1.61. The company continues to work on expansion projects that will achieve further economies and reductions in its production costs. Aphria's CEO, Vic Neufeld, stated in the company's press release that "Our fully funded facility expansion is well underway, and we expect to achieve further economies of scale once the expansion projects are completed in 2018."

Net income bolstered by investment gains

A big reason for Aphria's impressive net income came as a result of unrealized gains on its long-term investments, which totaled over $19 million. In total, all of its gains and losses for the quarter netted out to a gain of over $16 million. All of these gains and losses have, unfortunately, distorted the company's net income and made it less useful for investors, as in the previous year, Aphria had just $11,367 in gains for the quarter. The danger from an investor's point of view is that since a big portion of the company's income was a result of unrealized gains, there is the potential for those gains to turn into losses, which would have an adverse effect on the company's financials.

Improvement in operating income

If we look at the company's operating income before all of these gains, Aphria had a year-over-year increase of 76%, as it posted an operating profit of $1.38 million, more than 22% of the company's revenue. Aphria's profits are still strong and showing good margins, but, unfortunately, investors cannot use net income as any kind of barometre given the amount of investments the company has undertaken and their impact on its bottom line.

Should you buy Aphria today?

As the industry moves closer to legalization date, it will be even more important for cannabis producers to optimize costs, so margins can be as high as possible to yield the greatest amount of profit. Aphria is positioning itself well, so it will be able to maintain a profitable business model that will be able to succeed, despite taxes and any other additional costs that might hamper other cannabis producers like **Canopy Growth Corp.** (TSX:WEED). In just the past three months, Aphria's share price has increased 36%, and it could still have a lot of upside left, especially when marijuana is legalized.

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