Aphria Inc. Posts 47% EBITDA Growth in Q1 2018, Helped by Lower Costs

Description

Aphria Inc. (TSX:APH) is a medical marijuana producer and seller that is recognized for its low costs. Its first-quarter 2018 results, which were released last Friday, further strengthen Aphria's position as a low-cost producer.

A solid first quarter

Aphria reported strong Q1 2018 results. The company sold more cannabis, which increased its revenue and lowered its costs, thereby improving its earnings and margins.

Revenue for the three months ended August 31, 2017, was $6.1 million, up 38.6% from $4.4 million a year ago. Analysts were expecting revenue of $5.6 million for the quarter.

Aphria's first-quarter revenue was 7% higher than its prior quarter's revenue of $5.7 million — a quarter during which the company was capacity constrained, as the first sale from the part II expansion only happened late in August.

Furthermore, Aphria increased its sales by 15% on a kilogram and kilogram-equivalent basis from 738 kilograms to 852 kilograms. Cannabis oil sales, as a percentage of total revenue, remained constant in the quarter at 32% of revenue.

In the first quarter, the marijuana producer reported $1.5 million in EBITDA from operations, a 47% increase over last year. This is the eighth consecutive quarter in which Aphria has reported a positive EBITDA.

Net income for the three months ended August 31, 2017, was approximately $15 million, or $0.11 per share, as opposed to a net income of $895,000, or $0.01 per share, in the same quarter in the previous year.

The increase in net income for Aphria in the quarter is directly related to the net gains on the company's strategic investment portfolio in the quarter.

Aphria lowered its cannabis production costs significantly. Indeed, “all-in” costs to produce dried cannabis per gram decreased by 3.5% from $1.67 to $1.61. The company also lowered cash costs to produce dried cannabis per gram by 14.4% from $1.11 to $0.95.

The decrease was largely due to economies of scale achieved because of the completion of Aphria’s part II expansion. Part III and part IV expansions are progressing as scheduled with first sale from part III expected in May 2018 and from part IV in January 2019.

Once Aphria’s fully funded four-part greenhouse expansion is completed, further economies of scale will be achieved, which will help the company in its goal to be one of the lowest-cost producers in the marijuana industry.

Aphria’s ability to keep costs low while growing to scale is a big competitive advantage that is positioning the company to be ready for the recreational market that will come into play next year.

High net profit margin and high P/E

Aphria’s net profit margin is 20.5%, reflecting its effectiveness at cost control. The higher the net profit margin is, the more effective the company is at converting revenue into actual profit.

In contrast, **Canopy Growth Corp.** (TSX:WEED) and **Aurora Cannabis Inc.** (TSX:ACB), two major competitors of Aphria, have net profit margins of -34.8% and -71.8%, respectively. They have negative net profit margins since they’re still not able to turn revenue into profit.

If you look at Aphria’s P/E, you may find it extremely high at 195. But Aphria is a high-growth stock, and its price reflects investors’ anticipations of future earnings. If you divide the P/E by the earnings-growth rate, which is 300%, you get a P/E to growth (PEG) rate of only 0.65. A PEG below one means you are getting high growth for a reasonable price.

For this reason, I don’t think Aphria’s stock is overpriced. It’s a great stock to buy for a growth investor who is not afraid to take some risk.

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