



Aphria Inc.: Time to Back Up the Truck?

Description

Aphria Inc. (TSX:APH) wasn't the only cannabis stock losing ground October 17 on the news the TSX might still consider delisting cannabis companies listed on the exchange and operating in the U.S.

Aphria lost 13.4% on the day, **Canopy Growth Corp.** ([TSX:WEED](#)) was off by 4.7%, and **Aurora Cannabis Inc.** ([TSX:ACB](#)) dropped 3.8% on the news. Three of Canada's most prominent cannabis producers did not have a good day, but Aphria's was particularly dour as a result of announcing its \$80 bought deal on the very same day.

It's not good when you announce the sale of 11 million shares at \$7.25 at virtually the same time the stock is spiraling south of that already discounted share price. It makes it that much harder for the underwriter to sell the shares.

When I last wrote about Aphria in April, it was trading around \$7. With the latest setback, it's back to where it was when I [suggested](#) two reasons investors should buy its stock.

Is it time to back up the truck?

In hindsight, we all should have been backing up the truck in early June when it was trading in the mid-\$4's. In the five months since, it's spent just two days trading below \$5; so, it's all relative.

If you compare a stock chart from the beginning of the year between APH and WEED, you'll see that they've generally followed each other, except that Aphria had a more significant decline in its share price between April and June and then less noticeable gains in the five months since.

Nothing that happened in the first three months of the year screamed to investors to sell its stock, and yet it lost more than \$2 per share from April 19 when I wrote about it to its six-month low on June 7.

Now it appears to be retracing its steps, not necessarily back to below \$5, but downward, nonetheless, so we are faced with this million-dollar question.

A simple answer

Anyone who follows cannabis stocks knows that they're incredibly volatile, so I won't be so cavalier to suggest you'd be dumb not to, but consider these three points about Aphria, and I think you'll agree it's at least worth considering.

Revenue and profit growth: The top line in Q1 2018 grew 38% from a year earlier to \$6.1 million on 47% growth in EBITDA to \$1.5 million. Add to this a 190-basis-point increase in its adjusted gross margin and you've got a business that knows how to control its costs. Importantly, the first quarter saw Aphria generate positive retained earnings for the first time — a rarity among cannabis producers.

Low-cost producer: The feds want to slap a \$1 per gram excise tax on legal cannabis. CEO Vic Neufeld is quick to point out that the imposition of this tax highlights the need in the marketplace for low-cost producers who can absorb the tax and still make money, while keeping prices low enough to keep out the black market.

At \$10 per gram plus HST, revenue to the producers, Neufeld estimates, will be around \$5 per gram. Aphria's all-in cost is \$1.67, much lower than many of its competitors. That's going to make it a preferred supplier to many of the provincial entities overlooking the sale of cannabis.

Cannabinoid soda, here we come: In August, Aphria announced that it had made a \$11.5 million investment in Scientus Pharma, a Whitby, Ontario, company that's developing cannabinoid therapies for all kinds of treatments.

I recently read about Cannabinoid Creations, a consumer products company that's developed a line of sodas called CBD Hemp Soda. By providing pharma-grade Cannabidiol in combination with exciting soda flavours, users can deal with pain without the THC high.

To me, this seems like an even larger part of the cannabis and hemp market, because as you get older, it becomes harder to inhale, especially if you're a non-smoker.

It's a smart investment that might not pan out, but it's worth the risk.

Bottom line on APH

I like what Neufeld and company have done at Aphria. If you're in the market to buy a cannabis stock, I'd consider buying some Aphria now and holding some cash in reserve in case it moves back to \$6 or even \$5.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ACB (Aurora Cannabis)
2. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date

2025/08/22

Date Created

2017/10/20

Author

washworth

default watermark

default watermark