

5 Reasons Why Shares in Aphria Inc. Could Soar More Than 400% by This Time Next Year

Description

Shares in **Aphria Inc.** (TSX:APH) are 15% off their recent highs on concerns that U.S. enforcement of federal law could force Canadian marijuana producers to walk away from investments in medicinal marijuana operations south of the border, or worse, face delisting from the Toronto Stock Exchange.

Yet those concerns appear to be misplaced, as the company released a statement last week that it is engaged in a positive dialogue with the exchange operator and went on to say that to date, Aphria has not received any notice from the TSX that the company's listing is under review.

The recent news may have created a buying opportunity for investors looking to participate in the legalization of recreational marijuana expected next July — an opportunity that, in fact, could be very rewarding.

Here are five reasons why shares in Aphria could take off between now and legalization, potentially reaching \$35 per share or more by next July, which would mark a return of over 400% from the \$6.93 price shares fetched in October 25th's trading.

Aphria is the low-cost operator, currently producing at under \$1 per gram

Many have suggested that once it is legalized, marijuana will become akin to a commodity. If this is the case, Aphria is already positioned for success as the lowest-cost producer in the market today.

In the first quarter of fiscal 2018, Aphria achieved all-in cash costs per gram of under \$1, which is well below the costs achieved to date by peers **Canopy Growth Corp.** ([TSX:WEED](#)) and **Aurora Cannabis Inc.** ([TSX:ACB](#)).

While there remains a lot to be seen in terms of how the company will manage operations on a larger scale, it is encouraging to know that as it stands today, no one is growing marijuana more efficiently than Aphria.

Aggressive expansion plans to meet recreational demand

It's expected that the Canadian recreational market for marijuana will be close to 10 times the size of the current medicinal market.

Aphria is taking the appropriate steps to meet this demand with plans to expand the company's production capacity to 100,000 kilograms (kg) of dried cannabis from 4,000 kg currently.

With a supply deficit forecasted for July of next year, it will be important for Aphria to be in a position to meet that oncoming demand.

Using the first-mover advantage to create economies of scale

Aphria is an enviable position today as one of the largest licensed marijuana producers, currently boasting a market capitalization of just under \$1 billion.

The company's size has effectively allowed it to expand production capacity for when legalization becomes official which should in turn give it economies of scale that it will be difficult for competitors to match.

The cost and size advantage enjoyed by Aphria today could lead to a sustainable advantage long term and potentially pave the way for Aphria to be a dominant player in Canada's marijuana market.

Exponential potential for growth

All of these factors suggest that Aphria should be able to capture a sizeable portion of the recreational market next July.

Even if the company can realize \$1 per gram in profits at a production rate of 100,000 kg, that would imply net profits of close to \$100 million.

That would mark an increase of 25 times more than what the company achieved in fiscal 2017 and could very well cause the company's shares to skyrocket.

Positioned to capture a large share of the \$25-50 billion marijuana market

Currently, Aphria accounts for roughly 10% of Canada's medicinal market, yet there are factors outlined above that could see the company take a larger stake in the recreational market.

Even if the company could achieve a 15% market share of the recreational market, that would imply a valuation somewhere between \$3.75 billion and \$7.5 billion, or between \$26 and \$53 per share.

Bottom line

Some investors remain on the sidelines, waiting for more clarity from the government on pricing and taxation, but for those investors willing to be Foolish and get in early, it may be worth taking a shot at this licensed marijuana producer.

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