



Aphria Inc. Stock Surges 16%: Is it Time to Buy This Marijuana Player?

Description

Aphria Inc. (TSX:APH) is one of the few [marijuana producers in Canada](#) which is on track to unlock its growth potential and justify its rich valuations.

On December 4, Ontario-based Aphria announced that it had finalized a deal with Shoppers Drug Mart to sell medical marijuana when it becomes legal. This supply agreement with Shoppers positions Aphria to grow its medical sales through the network of Canada's largest pharmacy chain.

"Subject to Health Canada's approval of Shoppers Drug Mart's application to be a licensed producer, under the terms of the agreement the company will supply Shoppers Drug Mart with Aphria-branded medical cannabis products," a press release from Aphria said. "It is expected the products will be sold online, as Canadian regulations currently restrict the sale of medical cannabis in retail pharmacies."

This agreement between Aphria and Shoppers, a pharmacy chain owned by **Loblaw Companies Ltd.** ([TSX:L](#)), is a continuation of a high-profile deal activity in the Canadian cannabis sector before the government's planned legalization of the market for the recreational consumption on July 1 next year.

A prominent deal is [Canopy Growth Corp.'s](#) 10% stake sale to **Constellation Brands Inc.** for \$245 million last month. Earlier this year, **CanniMed Therapeutics Inc.**, became the first licensed producer to sign an agreement with PharmaChoice, a member-owned cooperative, for exclusive distribution rights at its stores.

The federal government's July 2018 target for legalization has spurred this deal activity as players race to cash in on a market that Deloitte has estimated could be worth more than \$22.6 billion.

Aphria's potential

Investors were very excited to learn about the Aphria's agreement with Shoppers, sending its stock soaring 16% to \$13.44 at the time of writing. Yesterday's gains add to an incredible run for Aphria investors this year. The company's shares have surged more than 160% so far this year, taking the company into the club of top performers with Canopy and **Aurora Cannabis Inc.**

There is no doubt that these explosive gains make the valuations of these top players highly speculative and frothy, but one distinctive advantage Aphria enjoys is that it is actually making a profit.

Aphria is the first public licensed medical cannabis producer to report positive cash flow from operations and the first to report positive earnings in consecutive quarters. And with the Shoppers supply deal under its belt, it has further cemented its position in the sector.

The bottom line

At a 12-month trailing P/E ratio of 96, there is no doubt that Aphria is a very expensive stock. At the same time, I think Aphria is one of the safest bets among cannabis producers if you look at the company's business model and its growth potential. If you are thinking to test the waters in the cannabis space, then Aphria stock is a good option.

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