Aphria Inc.’s Expansion Plans Make it One of the Best Pot Stocks to Own

Description

Aphria Inc. (TSX:APH) aims to generate profit while growing to scale. As such, it has reported a positive EBITDA for nine consecutive quarters while its revenue has grown in the double digits.

With a large market share in the medical marijuana segment, Aphria is aggressively looking to increase its presence in the recreational market in preparation of the legalization of cannabis for recreational uses in Canada and in an increasing number of U.S. states.

Strong second quarter that beat estimates

In the second quarter of 2017, Aphria reported $8.5 million in revenue — up 63% from the same quarter a year ago and 39% higher than its first-quarter revenue. The amount of product sold rose 45% to 1,237 kilograms. The cannabis producer generated an adjusted EBITDA from operations of $1.6 million — up 35% from a year ago.

Net income for the three months ended November 30, 2017, was $6.45 million compared to a net income of $945,000 in the same quarter a year ago. EPS of $0.05 easily beat the consensus estimate of $0.01.

While Aphria aims to be Canada’s lowest cost pot producer, the all-in costs of sales of dried cannabis per gram jumped 32% from $1.61 to $2.13 in the second quarter.

According to the company, this rise in costs is temporary and is due to a transfer of older plants into its Part II expansion, as Aphria wanted to bring more cannabis to its patients as soon as possible after obtaining Health Canada approval for its expansion. Older plants produce lower yields than younger ones, so costs were spread across a smaller harvest.

Further, per gram cash costs to produce dried cannabis increased from $0.95 to $1.45 for the same reason. Despite the increase, Aphria has still one of the lowest costs per gram in the industry.

Fast expansion in Canada and in other countries

Aphria has strong growth prospects. It is growing by acquiring or investing in smaller pot producers both nationally and internationally. Last year, Aphria bought a 37% stake in an entity based in Florida, which was renamed **Liberty Health Sciences Inc**. Earlier this month, Aphria bought a 25% stake in Althea Company Pty Ltd., an Australian company.

Last month, Aphria invested $10 million in two merging companies that will become Hiku Brand Company Ltd. Seven cannabis accessory stores will open in Ontario, Alberta, and British Columbia, further increasing Aphria's exposure to the Canadian recreational market.

On January 15, Aphria acquired Broken Coast Cannabis Inc., which will give the company a distributor in the major market of Western Canada just before recreational cannabis is legalized.

Aphria is also making deals in preparation for the upcoming legalization of recreational marijuana in July.

In December, Aphria made a deal with Shoppers Drug Mart, a pharmacy chain owned by **Loblaw Companies Ltd.**, to sell its products first via the Internet, and then later in the physical stores after receiving regulatory approval. The five-year agreement to supply medical cannabis to Shoppers Drug Mart will increase the brand exposure in Canada and will likely boost medical sales revenue.

On January 8, Aphria announced that it has entered into a partnership with Leamington-based greenhouse grower Double Diamond Farms for the creation of a joint venture called GrowCo that will provide an additional 120,000 kilograms of annual cannabis production to the marijuana producer.

The deal could make Aphria, along with its existing 100,000 kilograms of expected cannabis production, the largest greenhouse cannabis operation in the industry with a combined annual capacity of 220,000 kilograms by January 2019.

Aphria's share price has dropped by more than 10% since the beginning of the week, which represents an opportunity to buy the stock on the dip. However, if you don't want to invest in the cannabis sector because you find it too risky, there are other companies I would recommend instead.

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Date
2025/07/19
Date Created

2018/01/27
Author
sbchateauneuf