Aphria Inc. Stock Fires Up on Earnings: 5 Key Takeaways You Need to Know

Description

Aphria Inc. (TSX:APH) stock is flying through the roof this morning, thanks to yet another blowout quarterly earnings report. A lot has happened between Aphria's last quarterly earnings release in January and now, and its latest numbers suggest that things are on track for the medical marijuana play.

However, there's more to the big jump in Aphria's third-quarter income than meets the eye. Here are five highlights from the earnings report you must know.

100% growth in revenue

Aphria's Q3 revenue doubled to $10.3 million and jumped 69% for the nine months ended February 28. Three factors propelled Aphria's sales higher:

- higher sales volumes
- higher selling prices
- contribution from Broken Coast Cannabis, which Aphria acquired during the quarter

The solid growth in Aphria's third-quarter top-line positions the company for a record year.

Significant decline in cash production cost

Aphria's production costs are declining rapidly. Aphria's cash cost to produce per gram of dried cannabis slipped below the $1 mark in Q3. That's a significant improvement over the $1.73 cash cost per gram that Aphria incurred in the third quarter of 2017.

A sub-$1 cash cost makes Aphria one of the lowest-cost marijuana producers among the publicly listed companies. For perspective, **Aurora Cannabis Inc.'s** (TSX:ACB) cash cost of production came in at $1.41 per gram during its last reported second quarter.

161% jump in net income, but not from core operations

Aphria earned nearly $13 million in the third quarter compared to only $5 million in the year-ago period.

However, Aphria still incurred an operating loss of around $4 million, as the company is spending heavily on stock-based compensation to reward and retain employees.

That also means that whatever profits the company earned in Q3 were from other sources.

In Q3, Aphria pocketed $26.3 million from a stake sale in Liberty Health Sciences to avoid getting delisted from the TSX after the stock exchange recently flagged concerns about how Canadian marijuana companies with business in the U.S. are violating the U.S. federal marijuana laws.

Share dilution continues

Despite a 161% jump in its net income, Aphria's earnings per share only doubled to $0.08 during the third quarter. That's because the company's outstanding share count is rising steadily thanks to the issue of stocks.

So, for instance, Aphria's weighted average number of outstanding common shares jumped almost 44% year over year in Q3.

Stock dilution means existing shareholders get a smaller share in the company's profits.

Expansion plans on track

Last quarter was a particularly busy one for Aphria in terms of growth. Some key moves from the quarter include:

- acquisition of Broken East Cannabis
- acquisition of Nuuvera, which is expected to give Aphria a headway into international markets
- additional investments in Hiku Brands and Althea Company
- expansion of Aphria One — a 700,000-square-foot Part IV expansion
- expansion of Aphria Diamona — a 1,300,000-square-foot facility

Both Aphria One and Aphria Diamond are expected to begin marijuana sales by January 2019.

Foolish takeaway: Aphria's future plans

Aphria's CEO Vic Neufeld sounded optimistic as he revealed how Aphria is now preparing extensively for the coming legalization of recreational marijuana in Canada, even as it continues to explore "strategic opportunities and partnerships globally."

It's clear that Aphria is witnessing strong demand for medical marijuana and positioning itself well for the recreational cannabis market. As for its profitability and share dilution, stay tuned to know what management has to say.

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