



Aphria Inc. Stock Is Down 50% in 3 Months: Should You Buy the Dip?

Description

Aphria Inc. (TSX:APH) stock has lost over 40% since the beginning of the year after rising 270% in 2017. Shares surged about 10% on April 16 when Aphria released its 2018 third-quarter results before falling again.

A revenue that doubled, and a drop in costs

Aphria reported a profit of \$12.95 million, or \$0.08 per share, boosted by a \$26.3 million gain on the sale of some of its shares in Liberty Health Sciences. Aphria still owns 28% of the U.S. marijuana company. The year before, Aphria had a profit of \$4.95 million, or \$0.04 per share.

Aphria's revenue more than doubled to \$10.3 million compared with a year ago, helped by the [Broken Coast acquisition](#) and new patients. Aphria sold around 270,000 gram equivalents to patients on-boarded in the third quarter. Retail prices were up, with the average gram selling for \$8.30 compared with \$8.10 in the previous quarter.

Aphria's all-in costs of sales of dried cannabis per gram went down from \$2.13 in the same quarter in 2017 to \$1.56 this quarter.

Aphria needs more space to meet increased demand

While Aphria sold 445 kilograms to other licensed producers in the third quarter, the company will no longer sell marijuana wholesale to other companies. The pot producer wants to accumulate stocks ahead of the legalization expected for late summer or early fall. Aphria expects that it will need 8,000-10,000 kilograms of cannabis for the recreational market.

To meet the increased demand, Aphria needs to expand its capacity. It is doing so by building new facilities or expanding existing greenhouses.

Aphria recently completed a 200,000-square-foot greenhouse expansion at its Leamington plant, which should start producing in the coming weeks. This part-three expansion more than tripled Aphria's production capacity from 9,000 kilograms to 30,000 kilograms annually.

A further million square feet of greenhouse space is under construction, although it won't be ready until January 2019, so the company may struggle until then.

Aphria acquired Nuuvera Inc., which it has renamed Aphria International Inc., after the end of the third quarter to expand its [international reach](#). But to sell marijuana in Europe, Aphria needs a GMP certification for its facilities, which it is still waiting for.

Aphria launches first adult-use cannabis brand

Aphria unveiled its first recreational brand on April 17 ahead of legalization of marijuana later this year. The brand is called Solei Sungrown Cannabis and aims to demystify cannabis by making marijuana accessible to both current and novice users.

Solei is designed for users who have an open mind and want to live different kinds of experiences. Six different cannabis experiences will be offered in attractive packaging. For example, the Unwind strain is "way to unplug and slow down after a long day"; Soothe "is your day at the spa, without the hefty bill"; and with Ignite, you will "find your person and find your spark ... no bottle of wine needed."

What about the stock?

I think that Aphria's results were quite good, particularly the doubling in revenue. Aphria is one of the lowest-cost producers with one of the largest built capacities in the industry. This pot producer's revenue and earnings are expected to grow by 482% and 28%, respectively, in 2019.

Despite the strong growth prospects, I think the shares are a little too pricey with a forward P/E of 60 to make it a strong buy now. But if you don't own any position in a pot stock, it's a good idea to buy some shares now.

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Date

2025/08/25

Date Created

2018/04/24

Author

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