Aphria Inc. (TSX:APH) Stock Is Sinking: Should You Buy the Dip?

Description

Aphria Inc. (TSX:APH) reported its 2018 fourth-quarter and year-end results on August 1. While its revenue surged, its loss nearly doubled as the company prepared for the legalization of recreational cannabis in October.

Shares plunged over 8% in reaction to those results. What may also have contributed to the drop is the announcement that **Molson Coors Canada** selected **Hydropothecary Corp.** over Aphria to develop cannabis-infused beverages.

Is there any reason to be concerned? Let's have a deeper look at the results to determine if Aphria is still a good investment.

Revenue soared, but loss widened

Aphria's fourth-quarter revenue increased by 110.5% as compared to a year ago, from $5.7 million to $12 million. It's also 17% higher than the $10.3 million recorded in the third quarter.

The inclusion of Broken Coast results for a full quarter – as compared to one month of results in the previous quarter – and increased sales to medical patients boosted Aphria's revenue, but the gain was partly offset by lower cannabis oil sales from Broken Coast patients and by Aphria's decision to discontinue wholesales to other licensed producers.

Aphria incurred a net loss in the quarter ended May 31, which amounted to $5 million or $0.06 per share – almost twice the loss it incurred in the same quarter a year ago, which amounted to $2.6 million or $0.02 per share. Higher compensation expenses, costs related to Aphria International and investment portfolio losses weighed down on earnings and were partially offset by an higher gross profit.

Adjusted gross margin increases from the prior quarter to 78.7% of revenue as Aphria's cash costs to produce dried cannabis improved by $0.01 to $0.95 per gram, remaining below $1.00 for the second consecutive quarter.

Aphria believes that its low costs will give the company a competitive edge over its peers when recreational cannabis sales begin.

For the full year 2018, the marijuana producer's net income increased to $29.4 million or $0.18 per share, up 600% from $4.2 million, or $0.04 per share in 2017. Revenue for the year jumped 81%, from $20.4 million to $36.9 million.

Preparation for the recreational pot market and global expansion

Aphria is ramping up its cannabis production in preparation for the upcoming cannabis recreational market: its annual production capacity in Canada is expected to grow to 255,000 kilograms in January 2019, up from a current production of 35,000 kilograms.

The marijuana producer has secured a partnership with Great North Distributors, a Canadian subsidiary of Southern Glazer's Wine & Spirits, for distribution of adult-use cannabis throughout Canada. Southern Glazer's is North America's largest wine and spirits distributor.

Aphria has been involved in may deals in the last few months, including the acquisition of Broken Coast Cannabis for $200 million in stock and cash in February.

More recently, Aphria said it plans to acquire a subsidiary of **Scythian Biosciences Corp.** to expand its marijuana business in Jamaica and South America. This acquisition expands Aphria's global presence, with is now present in Canada, in the U.S., in Australia and in many European countries.

Bottom line

Aphria's situation is similar to that of **Canopy Growth Corp.** In its latest quarter, Canopy's revenue surged while its loss widened, as it is increasing its production to be able to supply large quantities of cannabis ahead of the marijuana legalization. This is a temporary situation, however, as when recreational cannabis revenue comes in, it will boost both the top line and bottom line of cannabis producers.

Aphria has an advantage over other producers because of its low costs, so it should be able to make more profit sooner.

Aphria's drop in price represents an opportunity to buy the stock on the dip before shares soar again when the legalization comes into effect in October.

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sbchateauneuf