



Why Aphria Inc's (TSX) Q4 Results Weren't That Impressive

Description

Aphria Inc. (TSX:APH) has had a horrible start to 2018, as its share price has lost more than 40% of its value in the first seven months of trading. Cannabis stocks have [struggled](#) this year after a fantastic 2017, and Aphria has been among the worst performing stocks.

This past week, the company released its fourth-quarter results, which continued to show strong growth. Revenues of \$12 million were more than double the \$5.7 million that Aphria recorded last year. And for the full year, sales came in at just under \$37 million, more than 80% of last year's tally.

Profitability remains a problem

Unfortunately, like many of its peers in the industry, Aphria continues to struggle to turn a profit. It recorded a loss of \$5 million for the quarter, which was nearly double last year's loss of \$2.6 million. For the full year, Aphria was able to produce a net income of \$29 million with the help of non-operating items.

If we look strictly at operating income, Aphria produced a loss of \$12 million for the full fiscal year compared to a loss of \$1.4 million a year ago. Although the company has achieved strong sales growth, operating expenses have soared, rising more than 185% during the year.

This is a troubling trend, especially as the company prepares for [recreational pot sales](#) in October, and where it's likely we'll see costs continue to rise in preparation for that date.

Aphria CEO Vic Neufeld was optimistic of what's ahead, but did caution that there might be issues: "We are excited and ready to hit the ground running on the first day of legal adult-use. It won't be without its challenges but we have a plan and the team in place to get it done."

The company is focused on growing internationally

We've seen many pot stocks look to expand into other parts of the world, especially as we see countries continuing to progress and change their attitudes on marijuana.

In its release, Aphria credited its strong leadership for the international growth it has achieved thus far: “We’ve had an exciting year adding more depth and experience to our senior leadership team that has helped expand our international operations and presence outside of Canada, US and Australia to an additional eight countries.”

The challenge will be managing that expansion and ensuring that costs don’t get any worse and continue to outpace sales.

Stock down on the results

Although marijuana investors have generally been unconcerned when it comes to profitability, as long as the top line is growing, the stock did see a drop of more than 8% on Wednesday when the results were announced, as investors remained unimpressed with Aphria’s performance.

It’s a growing sign that investors are starting to look at more than just sales growth, and although the stock has climbed to where it has based on its top line and the expectations for the industry, it’s going to need to do a lot more for the stock to continue to climb.

Is Aphria a buy?

While you can look at the stock as being down heavily this year and potentially being a bargain, it’s still a big risk to me, and although we’ll see strong sales growth once pot is legalized, I wouldn’t be surprised to see the losses get even bigger as well. That can lead to more share dilution and an even weaker stock price.

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