Is Aphria Inc. (TSX:APH) a Steal at $11.30?

Description

It's been a rough year for **Aphria Inc.** (TSX:APH). Kicking off the year at $20.19, the stock has since slid by more than 40%. While its larger competitor, **Canopy Growth Corp.** is rallying to a 12-month high, Aphria is currently trading closer to its 12-month low.

Does the past few months' sell-off in Aphria shares represent a buy opportunity? Or is it better for investors to pass on the company?

It helps to start by looking at Aphria's operations.

Operations and investments

Despite the poor performance of Aphria stock this year, the company itself has been growing. It has procured a major contract to supply cannabis in Ontario. It has made a number of new acquisitions, including a purchase of 99.86% of all outstanding shares in Broken Coast Cannabis Inc. In the most recent quarter, revenue doubled compared to the same time last year.

Many of these trends look positive for Aphria. The Ontario Cannabis Store deal, in particular, will grow the company's revenue significantly. However, when we consider the balance sheet implications of the deal, it looks less rosy.

Financial metrics

Some of Aphria's financial metrics are not all that encouraging. The company has incurred operating losses for the past three consecutive quarters. Its return on equity was just 4.07% and return on assets actually negative for the previous 12 months. On a more positive note, the company has reported positive net income in a few of its recent quarters–something other cannabis stocks haven't been able to do. The most recent income statement, however, showed a significant loss.

It's possible that the Ontario supply deal could result in Aphria's losses mounting. The company's relatively strong net income performance (compared to Canopy and **Aurora Cannabis Inc.**) is mainly due to the strong performance of its investment portfolio. When it comes to operations, Aphria is in the same boat as its competitors: persistent losses and mounting costs. If the company can't bring the cost of revenue down, then increased sales from new supply contracts could just mean ever-increasing (net) losses.

Valuation

Aphria trades fairly low compared to its book value, with a price-to-book ratio of 2.05. This is cheap for a cannabis stock: most public cannabis stocks are seeing rapidly growing revenue, and Aphria is no exception. While the company's price-to-book ratio is higher than the common yardstick of 1, it is low for a company seeing with 110% year-over-year revenue growth. Aphria's persistent operating losses may explain why the stock is so cheap at the moment. However, other cannabis companies are reporting losses and rallying dramatically, so it's not the full story.

My advice to anyone eying Aphria stock is to wait on the company's Q2 2019 earnings announcement. By that time, we should have a clearer picture of how the company is going to fare in the new era of legalization.

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