



## Weed Investors: Is Aphria Inc. (TSX:APH) Stock the Best One to Buy Today?

### Description

Marijuana stock prices have been on a wild ride in 2018 and the action in recent weeks has really shaken up the market.

Let's take a look at **Aphria** (TSX:APH) to see if it deserves to be in your portfolio.

### Beverage effect

Aphria started 2018 at \$20 per share, riding a wave of investor enthusiasm in anticipation of the launch of a recreational pot market. As we moved through the winter months and into the spring, the momentum waned, and even the June 20 announcement that the recreational market would officially open in October didn't reverse the trend. In fact, after a day or two of upside, the selloff picked up steam, and Aphria's stock price hit a closing low of \$8.72 on August 14. At that point it looked like investors were starting to bail out in a big way, but some game-changing news came out that reversed the trend.

What happened?

**Constellation Brands** ([NYSE:STZ](#)) announced August 15 that it was investing an additional \$5 billion in **Canopy Growth** to take its stake from 9.9% to 38% in Canada's [leading cannabis company](#). The price per share represented a 51% premium over Canopy's closing price the previous day, sending the entire cannabis sector into a major rally. Constellation bought its initial position in Canopy last fall for \$245 million.

Aphria surged to \$10.50 that day and has continued its recovery. At the time of writing, the stock is at \$17 per share, nearly double the August low.

Investors are betting that a major beverages company will soon announce a partnership with Aphria. Rumours recently emerged that spirits giant **Diageo** is speaking with Canadian marijuana companies, and given its size, Aphria would likely be on the short list. Canopy and **Hydroponics** already have agreements with beer companies, so there is only a handful of [other players](#) that could be on the radar.

## Should you buy?

Aphria reported revenue of \$12 million and a net loss of \$5 million for the three months ended May 31. Revenue jumped more than 100% compared to the same period last year, supported by increased sales to medical patients and the inclusion of sales from the February acquisition of Broken Coast Cannabis.

Annualized production is expected to hit 255,000 kilograms in January, representing a significant increase from the 35,000 kilogram capacity as of August 1.

The company continues to grow and is expanding its international reach to South America, Europe, and Australia ahead of anticipated changes in government regulations. However, the \$4.4 billion valuation is extremely rich, and the huge rally in the past two weeks pretty much prices in any premium the company might get from a major beverage company.

If a deal doesn't emerge or Diageo announces an agreement with one of the competitors, Aphria could quickly retreat back below \$10 per share.

As such, I would look for other opportunities today.

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