

Will Aphria Inc (TSX:APH) Win the Legalization Sweepstakes?

Description

It's less than a month until cannabis becomes legal nationwide. And the question that's on everyone's mind is this:

"Which is the best cannabis stock to invest in?"

In many ways, it's a question with more than one answer. Cannabis stocks have different strengths (and weaknesses), and all three of the big ones are [up massively](#) in the past few months.

Nevertheless, there may be *one* cannabis company that's uniquely positioned to profit from legalization *per se*.

That company is **Aphria Inc** (TSX:APH).

Aphria is unique among Canadian cannabis stocks in that its international reach is relatively minimal. Although it does have a globally-focused subsidiary, Aphria International, the company is broadly focused on the domestic market.

Whereas **Canopy Growth Corp** conducts business in [11 foreign countries](#) and **Aurora Cannabis Inc** operates in up to 14, Aphria lists just eight in its investor deck.

Why is this good news for Aphria?

Because it means that Aphria stands to benefit more—proportionately—from legalization.

The downside

Before explaining why Aphria's domestic focus is a good thing, I will first explain some of its downsides.

With its focus on the home front, Aphria naturally has a smaller market than its competitors. Although recreational cannabis is still illegal in most countries, medical cannabis is legal in many others, including Germany, Australia, Uruguay, Italy and Israel.

These countries represent a massive export market for companies like Canopy and Aurora—much of which Aphria is missing out on. The lack of international reach may be part of the reason why Aphria is smaller than the rest of the big three even though it's the only one with a history of positive net income.

Another downside of Aphria's domestic market focus is competition. Canada is one of the world's largest producers of legal cannabis and is home to two of the three largest pot companies in the world. This means that Aphria is up against stiff competition when it does business at home.

There are still many countries worldwide where legal cannabis is a new thing—and becoming the first Canadian company to gain a foothold in one of them would be an excellent revenue growth strategy.

While Aphria does have some presence outside Canada, it's far behind its peers in this regard.

The upside

Having explained the possible downsides arising from Aphria's comparative lack of international reach, it's time to reveal the big positive.

Being domestic-focused means that Aphria stands to benefit considerably from legalization. Canada makes up the vast majority of Aphria's sales. Accordingly, an increase in Canadian sales (stemming from, say, legal recreational users) means a big increase in Aphria's sales overall.

While Canopy and Aurora will probably see increased sales as a result of legalization, the increase won't be that large a percentage of their total sales, as a huge chunk of their revenue comes from abroad.

This is less the case with Aphria, which mainly sells cannabis to Canadian customers. And in the end, that may mean that Aphria will stand to benefit the most when legalization hits on October 17.

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