



Aphria Inc. (TSX:APH) Stock Is the Top Cannabis Play After Legalization

Description

Many of the top cannabis stocks suffered a retreat on the first day of trading after recreational cannabis was made legal in Canada on October 17. A **Canopy Growth**-owned store was the first to make an over-the-counter sale of legal weed shortly after midnight. Yesterday, I'd discussed why Canopy was in the [strongest position](#) of the top producers as legalization kicks off. Canopy is an attractive play, but it is not my top option today.

There was one big name that broke the trend of retreating prices when markets closed on the same day.

Aphria (TSX:APH) stock climbed 3.8% on October 17. Shares have now surged 86% over the past three months. Back in late August, I'd [discussed](#) why Aphria should be one of the top targets for investors ahead of the legalization date. The case for owning Aphria has only strengthened in recent weeks. It is my top cannabis stock to scoop up post-legalization.

Aphria released its fiscal 2019 first-quarter results on October 12. The company reported a 35% year-over-year increase in kilograms sold to 1,778.2. Revenue rose 117% year over year to \$13.2 million, while cash costs to produce cannabis per gram rose to \$1.30 compared to \$0.95 in the prior year. This also represented an 11% quarter-over-quarter increase in revenue.

The company's production capacity is set to skyrocket over the next year. Aphria estimates that it will increase its total annual cannabis output to 255,000 kilograms by May 2019. Increasing production capacity will be critical especially as producers struggle to meet demand in the early months of the roll out. The C.D. Howe Institute released a report that predicted legal cannabis supply would only be able to meet between 30% and 60% of demand in late 2018 and the first half of 2019.

Aphria has secured supply agreements with every single Canadian province. In the second quarter, the company also announced that it had divested of all U.S. cannabis assets at the quarter's end. This does not mean that it does not have huge growth potential south of the border. An omnibus farm bill in the United States could pave the way for cannabidiol to be sold across the country. Aphria is flush with cash — an estimated \$360 million in working capital as of the end of fiscal 2019 Q1 — and could move

quickly to re-up its footprint in this area.

Many Canadian producers have made a push into international markets. Aphria's effort has been one of the most promising so far. Aphria has acquired companies in Columbia, Argentina, and Jamaica and a right of first offer of refusal in Brazil, one of the largest global markets. It has a well-established footprint in Australia with its partner Althea and has entered a joint venture with South Africa-based Verve Group to form CannInvest Africa Ltd. This could open supply chains for Aphria to the entire African continent going forward.

Shares of Aphria have increased 3.7% in 2018 so far. Its performance has been muted in comparison to the other top producers. The stock comes at an attractive value for investors at this stage.

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