



Is Aphria Inc. (TSX:APHA) Stock Now Oversold?

Description

The recent pullback in the share prices of marijuana companies has investors wondering which [pot stocks](#) might be attractive buys right now for a cannabis stock portfolio.

Let's take a look at **Aphria** (TSX:APHA)(NYSE:APHA) to see if it deserves to be one of your marijuana stock holdings right now.

U.S. listing

Aphria recently changed its ticker on the TSX Index and followed the path of Canadian peers such as **Canopy Growth** and **Aurora Cannabis** to list on the **New York Stock Exchange** (NYSE). The move gives Aphria exposure to a wider investor base, and pundits suggest that the listing in the United States could boost the share price and valuation of the company if demand for cannabis stocks increases heading into 2019.

The U.S. listing might also make the stock more volatile, so the exposure south of the border can be a double-edged sword.

Operations

Aphria is positioned well to take advantage of demand for legal adult-use recreational marijuana in Canada. The company has supply agreements with all of the provinces and one territory, and is expected to have 255,000 kilograms of annual production capacity in 2019.

Aphria also has a distribution agreement in place with Southern Glazer's, North America's largest wine and spirits distributor. This should prove to be an advantage when the sale of cannabis-infused drinks becomes legal in Canada. Aphria hasn't announced a partnership with a major beverage company, but it would be expected at some point in the coming months given the investment by **Constellation Brands** in Canopy Growth and the partnership between **HEXO** and **Molson Coors Canada**.

Cost controls

Management has done a good job of driving efficiency into the production process. Aphria is a low-cost producer in the Canadian market and that trend should continue as the company employs more technology in the operations. Aphria is testing robots to improve planting and speeds and cut down cultivation time. Marijuana is effectively a commodity, and producers will need to drive costs down as much as possible to survive as the market evolves and supply begins to meet or eventually exceed demand.

International

Aphria has operations or partnerships in a number of key international markets, including Germany, Italy, and Malta in Europe, as well as Australia and South America. The company closed its acquisition of LATAM Holdings in September, giving Aphria an instant foothold in Colombia, Argentina, and Jamaica.

Should you buy?

Aphria's share price has held up better than many of its peers in recent weeks. At the time of writing, the stock is at \$15.75 per share compared to the 2018 high around \$22.

That puts the current market capitalization at about \$4 billion, which is pretty expensive given that the company has annualized revenue of roughly \$50 million based on the most recent quarterly report.

Aphria is large enough to make additional acquisitions. HEXO could be a potential target to give the company a strong presence in Quebec, as well as a beverage partnership.

On the other hand, Aphria might also become a takeover target for one of the bigger players. The marijuana industry is expected to consolidate further, with just a handful of major players emerging to control the market over the long term.

Bottom line

If you're positive on the long-term outlook for the cannabis industry, Aphria might be an interesting pick right now. However, I would keep any new position small. We could see another significant move to the downside in the next few months.

Other opportunities connected to the marijuana space might be better bets today.

CATEGORY

1. Investing

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date

2025/09/22

Date Created

2018/11/05

Author

aswalker

default watermark

default watermark