



Here Is Why Aphria Inc. (TSX:APHA) Stock Could Double in 2019

Description

Aphria (TSX:APHA)(NYSE:APHA) stock was down 36% month-over-month as of close on November 21. Shares have experienced major volatility since the middle of August, which has mirrored broader turbulence in the cannabis sector. The global stock sell-off has also had a negative impact on cannabis stocks into late November.

Earlier this week I'd discussed the [good and the bad in the cannabis sector](#) following legalization. Supply issues have been a nagging concern for investors and consumers. The Ontario Cannabis Store (OSC), which until April 2019 is the only cannabis retailer in Ontario, has received poor reviews from consumers due to long wait times on packages. It also suffered a data breach in the opening weeks of operation, which impacted over 4,000 customers.

Investors and consumers will be leaning on established producers like Aphria to ramp up production into next year. At the end of Q1 fiscal 2019, Aphria reported production capacity in Canada of 30,000 kilograms per annum. It expects to ramp this up to a production rate of 255,000 kilograms per annum at full capacity. Aphria has secured supply agreements with every Canadian province and the Northwest Territories, which guarantees the company access to 99.8% of the Canadian population.

Like many of its peers, Aphria has also made a push into international markets. On November 8, Aphria announced the acquisition of CC Pharma, a leading distributor of pharmaceutical products in Germany. This will allow Aphria to strengthen its end-to-end medical cannabis operations in the most populous country in Europe. Germany is expected to rely on imports to meet 100% of its medical cannabis demand until 2020 and possibly beyond. The transaction is slated to close in January 2019.

Aphria will be competing with other major Canadian producers like **Canopy Growth** and **Aurora Cannabis** in this highly sought-after market. New Aphria President Jakob Ripshtein recently predicted that the largest producers in Canada will establish strong footholds in the industry, while medium-sized producers will struggle to survive. He also expects some smaller producers to thrive, not unlike craft brewers.

Immediately following legalization, I'd discussed why Aphria was my [top cannabis stock play](#). One of

the key reasons for optimism at Aphria was its push into the Caribbean and South America. It has acquired companies like Columbia, Argentina, and Jamaica and obtained a first offer of refusal in Brazil. Aphria also formed CannInvest Africa Ltd. with South Africa-based Verve Group, which could open the door to the entire African continent.

In the domestic market, Aphria is well positioned to benefit as production ramps up in 2019. Demand has been higher than anticipated, and the company has remained one of the lowest-cost producers. It finished the first quarter of fiscal 2019 with over \$360 million in working capital, so Aphria will be primed to be aggressive going forward.

Aphria is not technically oversold as of close on November 21, even after the stock has suffered from a tumultuous autumn. Still, at \$11.69, the stock is an enticing addition heading into the final weeks of 2018. Investors should consider stacking as the broader market crawls out of this bout of volatility.

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