Danger: Aphria (TSX:APHA) Stock Is a Nosediving Liability

Description

A pot bear from the get-go, I've steered clear of the vast majority of marijuana stocks, and the following tanking ticker is no exception. Without a clearly defined market with assured growth in demand, and bearing too many resemblances to the dot-com boom and bust, the following legal weed stock has just never appealed to me — and it's a good thing, too.

Now that it's tanked so hard that even the most bullish of Canadian marijuana investors seem to be cooling on it, let's take another look at the wonky fundamentals and other warning signs lurking in the data for this erstwhile champion of the so-called green gold rush.

Aphria (TSX:APHA)(NYSE:APHA)

Canadian pharmaceuticals returns shrank by just over 9% in the last 12 months; however, while that doesn't sound great, now consider that Aphria's returns shrank by just over 50% in the same period. The good thing about Apria is that it can be compared with pharma stock; the bad thing about Aphria is that the comparison is not favourable.

Most Canadian stocks with a one-year past earnings growth in the region of 94% tend to be in proven sectors, so it's interesting to see so speculative a ticker looking so hardy on that front. A PEG of 0.7 times growth is nice and low, especially since this is one of the more famous of the Canadian growth stocks currently doing the rounds on the TSX index. Moving along, a low comparative debt level of 3.8% of net worth goes some way to adding to the quality of this stock, but really doesn't do enough to make up for a massively volatile share price and stubborn overvaluation.

The TSX index has far safer areas to put your cash

A P/E of 38.7 times earnings is unjustifiably high, with that overvaluation driven by an overpromising industry (the legal Canadian recreational version of which is merely weeks old) and the bullish buying of this summer's pot stock craze. Indeed, even those in the know got in on the craze, with inside buying of Aphria shares reaching moderately high volumes (over 300,000 units) in the last three months.

A P/B of 1.2 times book doesn't look so bad, however, and taken in conjunction with that insider confidence, it does leave some doubt hanging over my bearishness on this stock. If that share price falls much further (e.g., if investors start seeing a discount against future cash flow value), then it may be a tempting speculative prospect. A 56.8% expected annual growth in earnings seems like a high estimate (no pun intended), though if it does indeed transpire, a few Aphria shares tucked away might be a nifty sideline.

Having shed 0.92% in the last five days, you might think that the bucking and kicking of this stock is over (see last week's dizzying plunge), but the data indicates otherwise: Aphria's beta of 2.65 indicates high volatility. This is just right for momentum investors, and Aphria's share price is also overvalued by over $3 a share compared to its future cash flow value (a difference of the current $7.53 against a prospective $4.38), which is another key momentum assessment factor.

The bottom line

If you want to make money with Canadian marijuana stocks, you're going to have to be very patient, very lucky, or (more likely) very disappointed. Has the big green bubble burst? It sure looks like it, with even the most bullish of pundits calling a spade a spade with regards to last week's crash. Investing in Canada doesn't have to be this risky, so even growth and momentum investors may want to put their money in other areas of the TSX index.

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Date
2025/09/22

Date Created
2018/12/11
Author
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